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# THE PELLERVO STORY



A CENTURY OF FINNISH  
COOPERATION, 1899-1999

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TRANSLATED BY  
MICHAEL WYNNE-ELLIS

PELLERVO CONFEDERATION OF FINNISH COOPERATIVES  
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# FOREWORD

In a country like Finland, sparsely populated with a short summer and a long hard winter, the idea of people working together in their common interest comes naturally. So when cooperation in its organised form arrived on Finnish soil, the idea readily took root. The birth of cooperation is generally considered to have occurred on Monday, October 2nd, 1899, when the Pellervo Society was founded at the Helsinki University Student House in Helsinki. The year 1899 was a critical time for Finland and the founding of the Pellervo Society was one response to the emergency. Over the century since then, Finland has been transformed from a relatively backward agrarian state into one of the leading industrial countries in the world. In this cooperation has played a significant role.

The overall significance of cooperative history has, however, been neglected, even though numerous studies of aspects of the cooperative movement and individual cooperative organisations have been written. The most comprehensive study of the Pellervo movement is already fifty years old, as it was published in 1949 in celebration of the Society's first half century. No up-to-date study of the movement exists and this was considered a serious deficiency. The need is even more urgent considering the fundamental changes that have taken place in the operating environment of the cooperatives in more recent times.

In autumn 1995 a team of researchers under Markku Kuisma, Professor of History at the University of Turku, was assembled to write a up-to-date scientific history of the Pellervo cooperative movement's first century. The other contributors were Annastiina Henttinen, PhM, Sami Karhu, PhL, and Maritta Pohls, PhD. The Pellervo Society appointed a History Committee under Heikki Haavisto, chairman of the council of representatives, to assist



the researchers in their work. Risto Alapuro, Professor of Social History at the University of Helsinki and Professor Risto Tainio of the Department of Organisation and Management at the Helsinki School of Economics and Business Administration contributed greatly to the history project. The book, *Kansan Talous – Pellervo ja yhteisen yrittämisen idea 1899–1999* (A people's economy – Pellervo and the idea of joint entrepreneurship 1899–1999), was published in early 1999. Its rather unique structure of three different approaches to the history is explained in Markku Kuisma's introductory essay.

Long before its publication, however, the idea of a translation had been suggested. The example of Pellervo cooperation, it was believed, would prove not only of interest to cooperators in other countries, but also useful. However, translating the 700-page book would not achieve this aim, so a shortened version was decided on explicitly for foreign readers. Researcher Maritta Pohls and translator Michael Wynne-Ellis were given the task of editing the new book, assisted by translator Jüri Kokkonen. The translation has been generously financed by the Finnish Cultural Foundation

We hope that our foreign readers will find *The Pellervo Story – A History of Finnish Cooperation, 1899–1999*, of constructive interest in their work in the cooperative movement.

#### PELLERVO CONFEDERATION OF FINNISH COOPERATIVES

HEIKKI HAAVISTO  
Chairman of the  
Council of Representatives

SAMULI SKURNIK  
CEO

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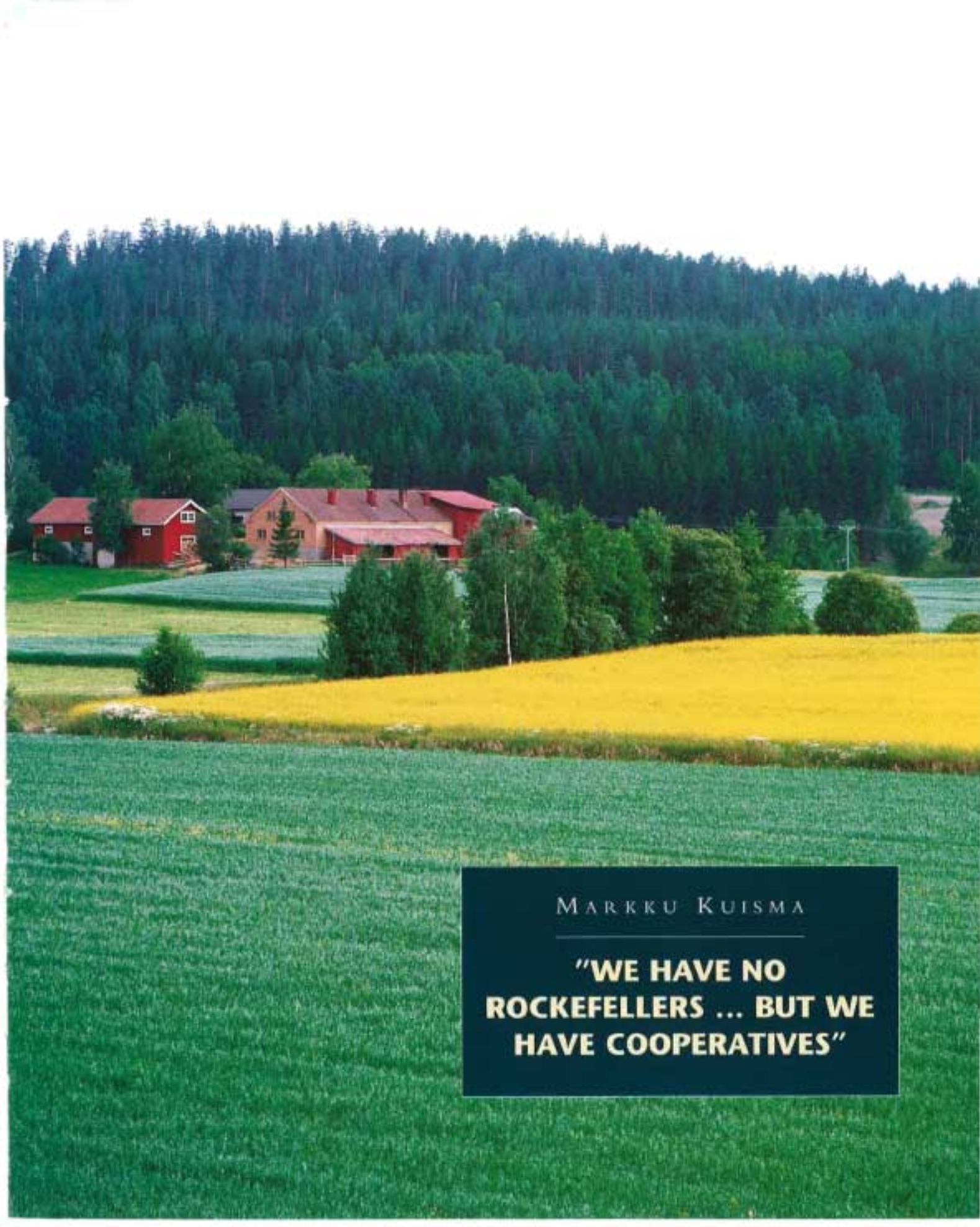
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MARKKU KUISMA

**"WE HAVE NO  
ROCKEFELLERS ... BUT WE  
HAVE COOPERATIVES"**



Seldom does the good fortune of winning a Nobel Prize come to a small nation. Finland's two winners were both closely connected to the countryside: the writer F.E. Sillanpää was awarded the Nobel prize for literature in 1939 and the biochemist A.I. Virtanen the Nobel prize for chemistry in 1945.

Although Professor Virtanen (1917–1973) and the AIV method he developed for preserving silage have become part of academic lore in Finland, less is known about the background that made it all possible. Since the early 1920s, Virtanen had been director of research at Valio, a company owned by numerous local dairy cooperatives themselves owned by a hundred thousand farmers. Virtanen's AIV method was developed in the Biochemical Research Institute established in 1931 by the Chemical Research Foundation, owned by Valio, Hankkija and SOK in association with OKO and three other banks.

It is quite natural, therefore, that Virtanen had a great respect for cooperative enterprises and likewise expected a great deal from them. In his application for funding for another major project of national importance in the late 1930s, Virtanen wrote: "We have no Rockefellers, Carnegies or others who can put up the funds to finance research, but we have cooperatives and they could do much in this field if they really wished to."

By this time, Valio had grown into a major enterprise and cooperative companies successfully pushing private companies aside had conquered

many other fields. As Virtanen wrote: "Cooperation is playing an increasingly dominant role in society ... and so it must also take on those tasks that earlier belonged to private capital and still are in many countries."

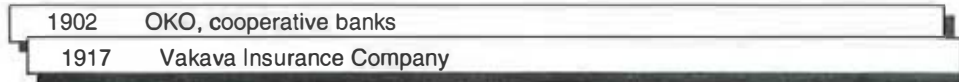
F.E. Sillanpää (1888–1964), the son of a poor cottager, came to the fore in 1919 with his realistic novel *Hurskas kurjuus* (Meek Heritage). The novel is set against the same poor rural backcloth as the dairy farmers who created the Valio cooperative and for whom the AIV method proved so indispensable in raising the quality of exported products.

That both Nobelists had strong connections to the countryside is no accident as Finland in the early 20th century was a predominantly agrarian country. Four-fifths of its population of three million lived and worked in the fields and forests. Emerging industry, particularly the forest industry, depended on rural resources and labour. The distress of the landless masses, which Sillanpää describes, was one of the most serious social problems of the age. The rise of the cooperative movement can be seen as an attempt to solve this problem.

These social problems affected other aspects of Finnish life, such as the labour movement, industrialisation, urbanisation and the country's position as an autonomous grand duchy within the Russian Empire. It was the countryside that proved decisive in determining the nation's destiny, particularly in respect to the struggle against the increasingly repressive actions of the Russian authorities at the

## Early Development of the Pellervo Value System

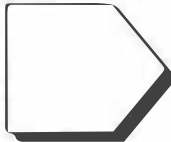
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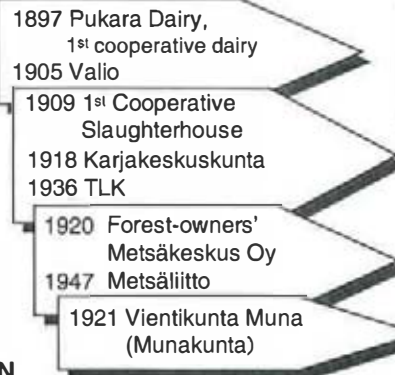
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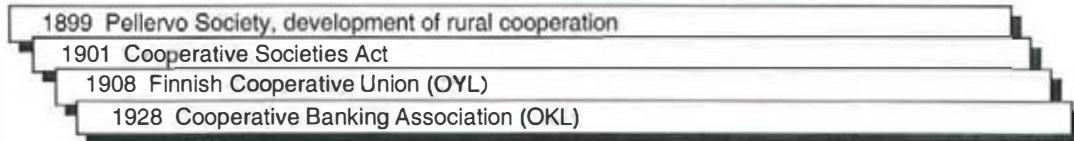
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### DISTRIBUTION



### ORGANISATIONS AND LEGISLATION



#### *The Pellervo Value System*

The three pillars of Finnish cooperative strategy are networks, special laws and central societies. Within the framework of modern strategic thinking, the early stage of the operations of Pellervo enterprises forms an interesting entity. It is not a juridical entity as

cooperation has never pursued a common operations or ownership strategy. It is clear, however, that through the many different yet actually related synergetic factors the totality of Finnish cooperation was, and still is greater than the sum of its parts.

turn of the century. Rural contradictions and the strong farmer element in General Mannerheim's White army were the determining elements in the Civil War 1917–18, which led to Finland's freedom from Russia, independence and the preservation of a bourgeois social system.

The same factors continued to influence the heated political struggles of the 1930s. The leader of the all-powerful Union of Woodworking Industries, Axel Solitander, emphasised the strategic importance of farmers, particularly the legions

of smallholders, in this struggle. In a confidential memorandum in 1937 he remarked that whoever wins the small farmers to their side would gain political power in the country.

The national poet Eino Leino (1878–1926) attributed the same importance to the countryside and farming in his stirring poem *The Song of Pellervo*, commissioned by the Pellervo Society for its first gathering of cooperators. Thanks to the late development of industrialisation in Finland, Leino's imagery remained relevant until the 1960s.

## From the Pellervo of professors to a mass movement of farmers

What then was this Pellervo Society? The name derives from Sampsa Pellervoinen in the *Kalevala* epos, the genius of agriculture, the sower of the field, and is derived from the Finnish word for field, "pelto". And what is the Pellervo cooperative movement, which Virtanen imagined could take the place of the Rockefellers and Carnegies? Hitherto there have only been brief and superficial explanations of the mystery behind the movement which, in terms of individual membership, grew into the largest popular movement in the country. To the vast majority of people many of the companies associated with the movement are household words. Valio's milk and ice cream bars are a part of the collective memory of several generations, likewise the cooperative banks and stores, even Hankkija's orange-coloured peaked caps. Perhaps less familiar are Metsäliitto and the cooperative slaughterhouses, although the latter have supplied most of the meat eaten in the country and the former has grown into one of the largest wood-processing enterprises in Europe.

Probably even less is known about the organisation, which fundamentally influenced the establishment and development of the cooperative banks, Valio, SOK and other major companies – the Pellervo Society. Founded in 1899 to promote cooperatives in all branches of agriculture and disseminate the ideals of cooperation in general, none of Pellervo's early leaders came from that large segment of the population it was committed to work for, the farmers. Paradoxically, its leaders came from the social elite. Among the 80 founders attending the meeting at Helsinki University's Student House on October 2, 1899, were 25 university professors, 11 former or serving senators, numerous senior civil servants and many big businessmen.

That the previous year patriotic students had toured the country laying the foundations for the Society's work is indicative of its future social role.

Further evidence of this is that among its early supporters were a number of leading figures from industry and banking. As the book will show, the active interest of Helsinki's nationalistic intellectuals, top administrators and leading businessmen in the living conditions of the country people that was concretised within the Pellervo Society, is largely explained by the prevailing political and social situation.

The February Manifesto of 1899 cast a dark shadow over the future of Finland and it seemed that the autocratic Russian tsar intended to destroy the autonomy of the grand duchy, submerge its people within the Empire's sea of nations and terminate the favourable developments of the past few decades. To counter this threat, the people of this large but sparsely populated country had to close their ranks and in the name of national unity to radically reduce the economic gulf between social classes. One need of vital importance was to strengthen the national consciousness and political awareness of the largest group in the population, the farmers. This in turn would require the economic, social and educational emancipation of them, as well as the landless peasants, and the rural and urban working classes. The best way to achieve this would be by encouraging enterprise through cooperation.

As a form of enterprise, democratic and free in character and successfully established throughout Europe, cooperation was not as an end in itself but a means of achieving social goals of national importance. This, then, provided the main impetus for the creation of the Pellervo movement. What triggered off its almost explosive growth was the expansion of market-oriented capitalism, European economic integration and the gradual changeover in agriculture to production for the market.

These processes made room for new companies and forced farmer producers to seek forms of commercial and industrial collaboration, which would enable them to adapt to the structures of the new kind of economic dynamics. For these reasons the message broadcast by patriotic professors and social reformist agrarian politicians through Pellervo did not fall on deaf ears. Farmers, who already had

## COOPERATIVES IN FINLAND 1998

(including subsidiaries)

|  | Number     | Individual members | Group personnel   | Group turn-over FIM bn | Group turn-over €Bn | Market share %   |
|--|------------|--------------------|---|------------------------|---------------------|------------------|
| Meat cooperatives  | 5          | 40 713             | 6 647   | 7,77                   | 1,306               | 69               |
| Cooperative dairies  | 53         | 24 115             | 5 539   | 9,99                   | 1,680               | 96               |
| Egg cooperatives   | 2 (3)      | 1026               | 127   | 0,20                   | 0,034               | 50 (71)          |
| Forest cooperative owners'   | 1          | 123 185            | 19 927  | 28,51                  | 4,795               | 33               |
| Livestock breeding   | 8          | 45 058             | 604   | 0,20                   | 0,034               | 100              |
| Hankkija-Agriculture Ltd.*   | -          | -                  | 714   | 3,37                   | 0,566               | 41               |
| Consumer cooperatives  | 46         | 1 179 891          | 25 610  | 34,76                  | 5,846               | 39               |
| Cooperative banks  | 289        | 755 300            | 9 073   | 10,93                  | 1,838               | 33 <sup>1)</sup> |
| Insurance associations   | 113        | 400 000            | 800   | 1,10 <sup>2)</sup>     | 0,185 <sup>3)</sup> | 7 <sup>3)</sup>  |
| <b>TOTAL **</b>  | <b>515</b> | <b>2 569 288</b>   | <b>68 327</b>   | <b>93,46</b>           | <b>15,718</b>       |                  |
| *Agricultural supplies company, a subsidiary of the largest consumer cooperative SOK |            |                    | <sup>1)</sup> Deposits  |                        |                     |                  |
| **According to the Trade Register, the number of cooperatives in Finland is 2573     |            |                    | <sup>2)</sup> Income from premiums                                    |                        |                     |                  |
|  |            |                    | <sup>3)</sup> Market share for all mutual insurance companies is 40 % |                        |                     |                  |

generations of experience of working together behind them, joined the Pellervo movement in their tens of thousands. And within two or three decades many of the companies owned and controlled by these farmers had risen to a position of significance on the home market and some of them even on the export market.

The growth curve that began at the turn of the century has continued for a surprisingly long time. From being a poor, peripheral agrarian state Finland underwent rapid industrialisation and urbanisation within less than a century. Its population has grown from three to over five million. During the 1950s agriculture lost its position as the most important occupation and now only offers work to a few per cent of the population. The structure of industry diversified far beyond its former wood-processing predominance. The rapid adaptation and development of modern technology led to the globalisation of a number of

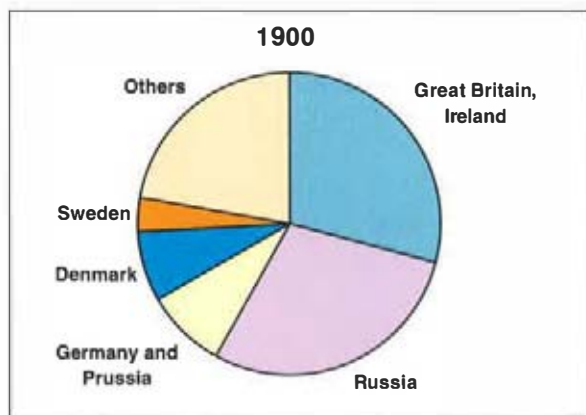
leading Finnish enterprises. And in respect to the levels of income and welfare Finland is now among the top nations of the world. Furthermore, almost all of the Pellervo companies established at the beginning of this century have survived these upheavals, two world wars, Cold War isolation, and even the challenges of competition following membership of the European Union in 1995.

Few people, even those familiar with Finnish economic life, are aware of the true importance of this cluster of companies that sprang up within the Pellervo movement at the beginning of the century. In 1998, for instance, the companies belonging to the Pellervo group had a combined turnover of FIM 60 billion (USD 10 billion), a staff of 45 000 and almost 1.4 million individual memberships. In respect to turnover and payroll, they were in the same class as the telecommunications giant Nokia Corporation and

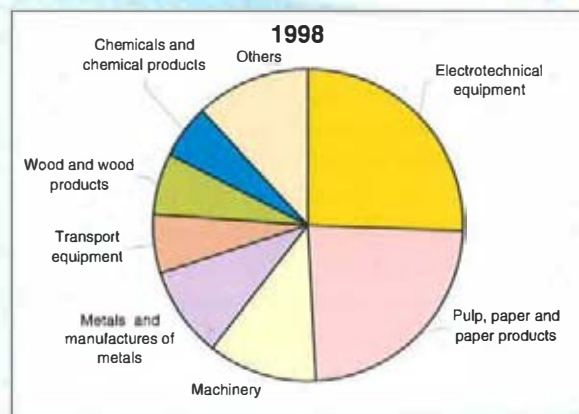
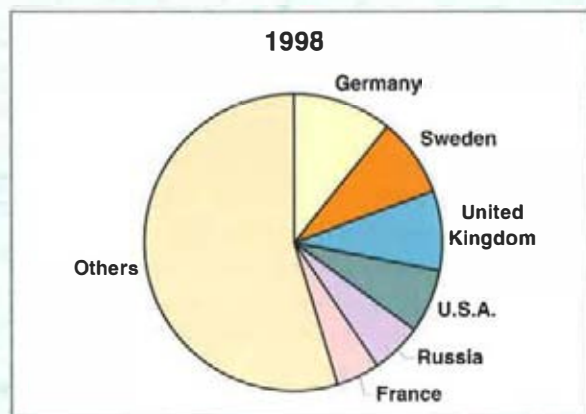
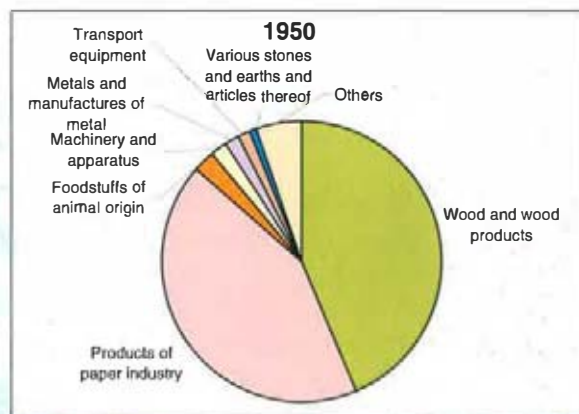
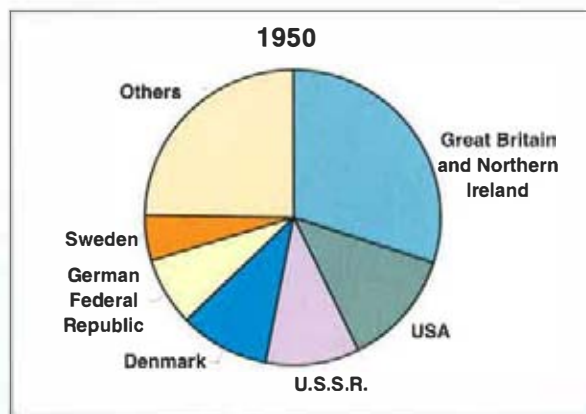
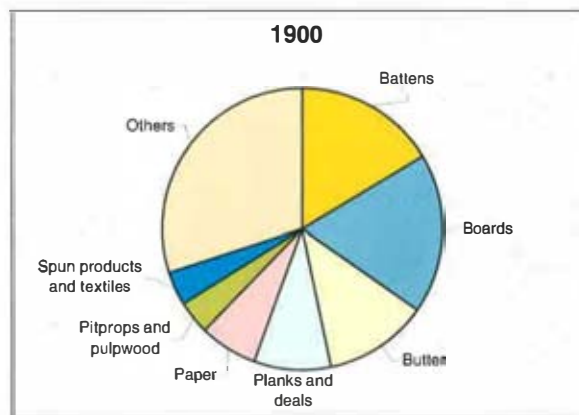


## FACTS ABOUT FINLAND

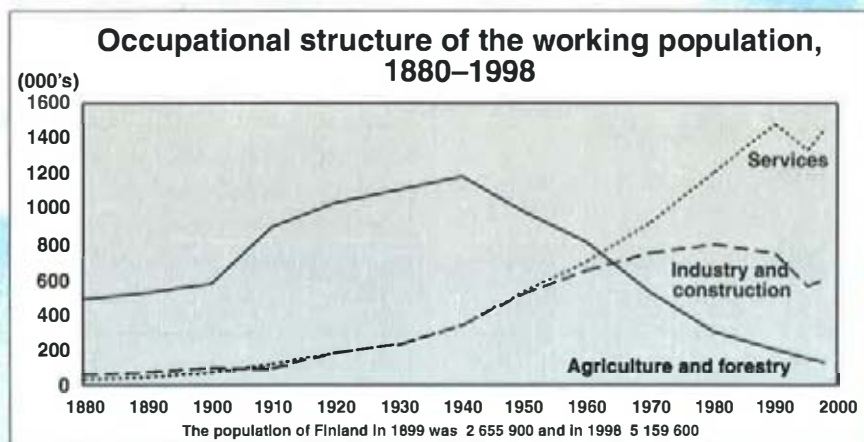
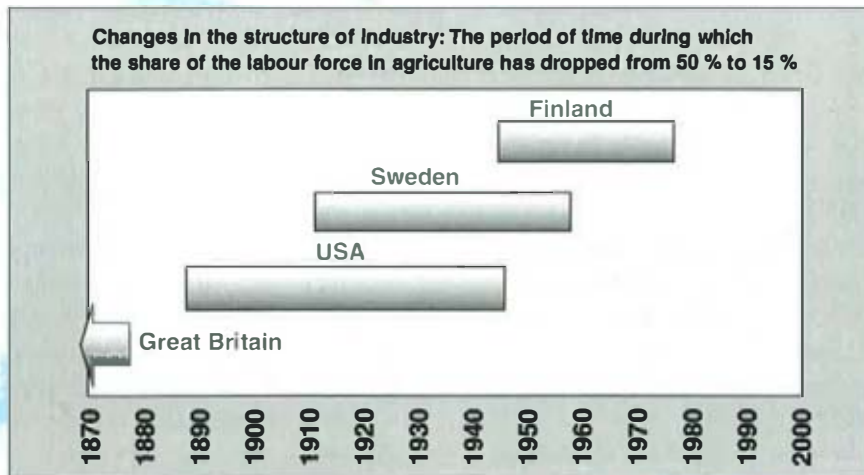
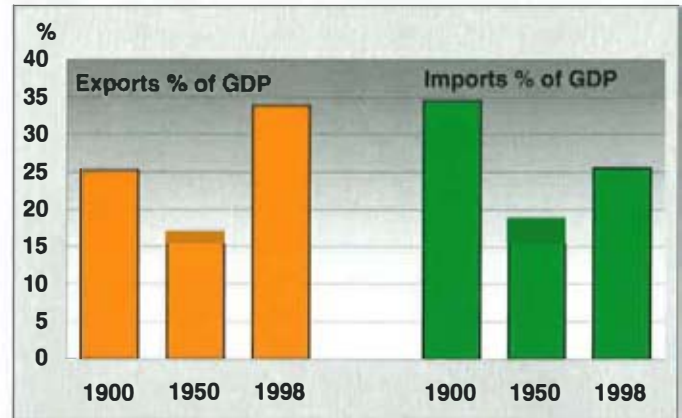
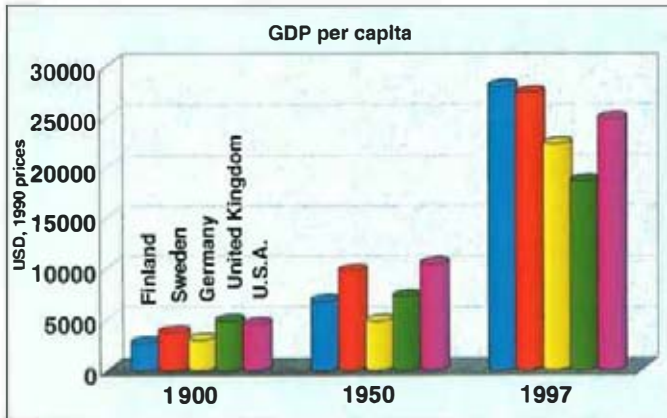
*Leading export countries*



*Main exports*



## Share of foreign trade in GDP



the world's largest paper manufacturers UPM-Kymmene. Neither do these figures include all the major enterprises established by or associated with Pellervo, like SOK, one of the leading retail groups in Finland, Tapiola, one of the largest mutual insurance companies and the Raisio Group of food producers.

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It has to be remembered that the so-called Pellervo companies do not form an integral, centrally managed group even in respect to their aims and goals. Neither can this group of mutually competing companies with their fluctuating and unclear boundaries be directly compared to Nokia, UPM-Kymmene or other major corporations. Despite their similar historical origins, some Pellervo companies have detached themselves in order to fulfil their basic tasks, like the SOK consumer-oriented cooperative. Others, like the cooperative banks, have lowered their Pellervo profile in response to the changes in the nature of their business and customers. By the 1970s and 1980s there were more urban wage earners than rural producers among the depositors. Neither was the cooperative society a sufficiently distinguishing feature and a number of companies in and around Pellervo have taken advantage of the joint stock structure in their operations. In addition, an historically significant part of the cooperative movement, the so-called Progressives, already separated from the main body in the mid-1910s, split away from the original body, closely identifying itself with the aspirations of the labour movement, only to fall victim to the recession of the 1990s.

## **"By their own efforts, but joined together"**

Despite all these reservations, it still appears justified to talk of a distinctive Pellervo group of companies – much in the same way as people formerly referred to the bank-dominated financial and industrial camp or the business operations of the labour movement. It is equally

justified considering these companies, involving hundreds of thousands of people, a combined turnover of tens of billions of markkas, and similar origin, growth and operational dynamics, as one group.

Even the single fact that the present industrial flagship of the movement, the Metsäliitto Group, is one of the largest wood-processing companies in this country as well as in Europe, leads one to ponder certain important and fascinating questions. There are other similar examples from everyday life, such as that in 1998 no less than 96 per cent of all milk collected and processed went through cooperative dairies, that Finland's largest dairy company Valio Ltd was the tenth largest in Europe, that 33 per cent of all deposits in Finland were in cooperative banks, and that cooperative meat processors controlled 69 per cent of the market. Size and economic weight are naturally not the only, or even the most important criteria for measuring social significance. However, there exist totally opposite ways of measuring the societal role of the Pellervo movement. As a whole the question concerns the rural and farming origins of a movement that has done more than anything else to shape the everyday life of the ordinary people. The same agrarian-based movement which, for example, through far-reaching political manoeuvres in the 1920s, united the development of the wood-processing industry to the interests of tens of thousands of small forest owners by restricting the forest holdings of large companies, thus preventing the country's vital natural resources from falling into the hands of a centralised business oligarchy.

Indirectly this can be considered one of the most important turning points in Finnish history. It created the economic and political basis for building a democratic, prosperous and industrial state, prevented it from becoming an export-dominated oligarchy, and forced the wood-processing industry to seek its future through developing competitive technologies rather than depending on cheap raw materials. Nothing more graphically describes the composition of Finnish society than that the same party, which represented the "green

revolution", also produced the first president with a farming background, Kyösti Kallio, and which after the second world war played an integral part, for better or for worse, in shaping the country's economic and political system.

Thus the Pellervo movement can be seen as part of the social process which has shaped the country's system and future, as well as assiduously laying the basis for it at the grassroots level. Thus, despite their common origins, it is no accident that the cooperatives based on agricultural producers diverged from those tied to the labour movement and consumers at a fairly early stage. In the background was the reality of deep conflicting class interests, which can be crudely simplified in the question: Did the future of Finland and its people lie in socialism or capitalism? Or conversely, did those who identified their interests and ideas with private capitalism, see certain dangerous features in the expanding operations and social emancipation of the movement of agricultural producers after their early benevolent enthusiasm. A particularly problematic situation was seen in the all-important wood-processing industry, which the farmers together with their nationalistic, middle-class allies now began to besiege from two sides. First, the democratic and largely farmer-dependent government felt it was intruding between the large forest companies and the farmers who owned most of the forests (and thus the companies' sources of raw materials) in order to protect the latter from the bondage of free market forces.

On the other hand, the collaboration of forest-owning farmers (firstly in sales and ultimately in production) created a counterbalance on the market to the great wood-processing companies. The latter could no longer depend on a supply of cheap raw materials or, following the rise of the labour movement, cheap labour.

It is thus quite natural that Solitander, the spokesman of the great forest companies during the 1930s, warned of the ambitions of cooperative enterprises and hinted at the damage that could be done by the accumulation of collective capital. He further remarked that although the

resources in the hands of the state and the cooperatives were ostensibly for the benefit of the individual citizen, nobody had realised that the ever-growing burden of this capital worked against individual enterprise and in favour of collective operations run by more-or-less invisible owners.

In Solitander's opinion, cooperative as well as state-managed enterprises were "subsidised collective activities" which weaken the dynamics of the market. He was in no doubt that a small country should develop on the basis of the free capitalist system and spurn all forms of "state-subsidised collectivism". Solitander expressed these views in a confidential talk to right-wing members of parliament at the legendary Helsinki restaurant Kämp in 1935. Considering the fact that these were not just the private opinions of one man but those of a massive business based on the country's most important natural resource, accounting for 80-90 per cent of its exports and thereby integrating Finland into the global economy, it profoundly affected the operating environment and policies of the Pellervo movement.

Although the growing market position of Pellervo producers worked against socialism – and also in their opinion against state collectivism – it also appeared as a threat in the eyes of the defenders of free capitalism. Thus the Pellervo movement – perhaps consciously – fell between the two main systems. By turning its back on both capitalism as well as socialism, it inevitably sought a third way. As the movement's founder Hannes Gebhard wrote in 1899 in his study of farmers' cooperatives in other countries: "In the shadow of these two systems and schools of thought – free competition based on selfishness and alienation, and from the misery this has created, socialism, which likewise will be the death of true individualism – there has unobtrusively arisen another way that also has its origins in the idea of freedom. It is the peaceful endeavour of the underprivileged, those suffering from the consequences of the untrammelled competition of capitalists, to improve their lot by their own efforts, but joined together."



# LÄHIVAKUUTUS INSURANCE COMPANY

The Pellervo Society considered the local insurance associations an essential part of rural cooperation and first established the Vakava Reinsurance Company for the fire insurance associations and then the Kekri Reinsurance Company for the animal insurance associations. Their work is continued by the Lähivakuutus Insurance Company, which is among the six largest indemnity insurance companies in Finland. Although it still insures half of the farms in the country, it has extended its operations to all households and also corporate risk management. Lähivakuutus possesses a considerable collection of art, which includes some of the finest works of Finnish artists from the fin de siècle Golden Age onwards.



Albert Edelfelt's *Woman standing on the balcony*, 1884.



Helene Schjerfbeck's *Snapdragons*, 1909.





## Phases in the development of Finnish and Pellervo cooperation



The Pellervo century can be divided into two periods of development, which offer quite different operating environments. The first was an open but developing market economy. The second a closed regulated economy. Membership of the EU marks the beginning of a third period with an open, market-oriented environment.

## The third way and the basic form of enterprise

As a traveller along the third way, the Pellervo movement was naturally attacked from two directions. This position was not, however, without its advantages. In the global struggle between the two systems, the third roaders – those, perhaps, who wished to sit on both sides of the fence at the same time – may well have fallen into the gap

between. However, those grouped around Pellervo more often managed to exploit political and economic conditions and the need of other groups for allies. The political power wielded by the small farmers meant that their support was vital to both the capitalist and socialist camps.

The labour movement, with its emphasis on the regulatory role of the state in economic life, enjoyed their support when arbitrary market forces had to be bridled in the interests of the mass-based cooperative enterprises or state companies working for the national (largely agricultural) good. And those in the opposite camp needed their support when the bourgeois social system was threatened – as in the 1917–18 civil war and after the second world war to withstand Soviet efforts to absorb Finland into its sphere of influence.

In all these struggles, the cooperative movement played a role that is difficult to exaggerate.

The same role could be seen during the depression in the 1930s when the cooperative banks and retail societies did much to alleviate rural distress. During and also after the second world war, agricultural produce marketing cooperatives played a decisive role in the supply of food, which did much to ensure Finland's later self-sufficiency. The cooperative banks were also essential in the resettlement of the 400 000 Karelian evacuees and war veterans at a time when plucky Finland was fighting for its life.

In particular, the need to maintain a united bourgeois front enabled the Pellervo movement to force private capitalism to compromises, though not without much gnashing of teeth. KOP Bank, established by nationalistic Finnish-speaking businessmen in 1889 to undermine the power of the Swedish-speaking business elite, shared a similar ideological and socio-historical home as Pellervo. More importantly, however, they shared a number of key personnel like J.K. Paasikivi, who was variously secretary of Pellervo, general manager of KOP, prime minister and ultimately president of the republic. In addition, those corporate representatives who openly sought new and better ways of organising business life may well have been genuinely interested in the cooperative alternative. Solitander, despite his condemnation of ownerless capital, the supremacist aims of cooperation and "subsidised collectivism", left the door open when discussing more efficient means and models of economic dynamics: "Cooperation, for instance, about which nothing was known in this country fifty years ago, has in many respects shown itself to be successful and of benefit to increasingly large numbers of people."

In his reference to cooperative successes, this representative of shareholder and family capitalism was more accurate than he probably realised. Even in the United States of America, the motherland of Rockefeller-style capitalism, whose tentacles reach to all corners of the earth, cooperative enterprises have an important influence, although those whose thinking is geared to the Dow Jones index are averse to admit it. Farmer-owned producer cooperatives are

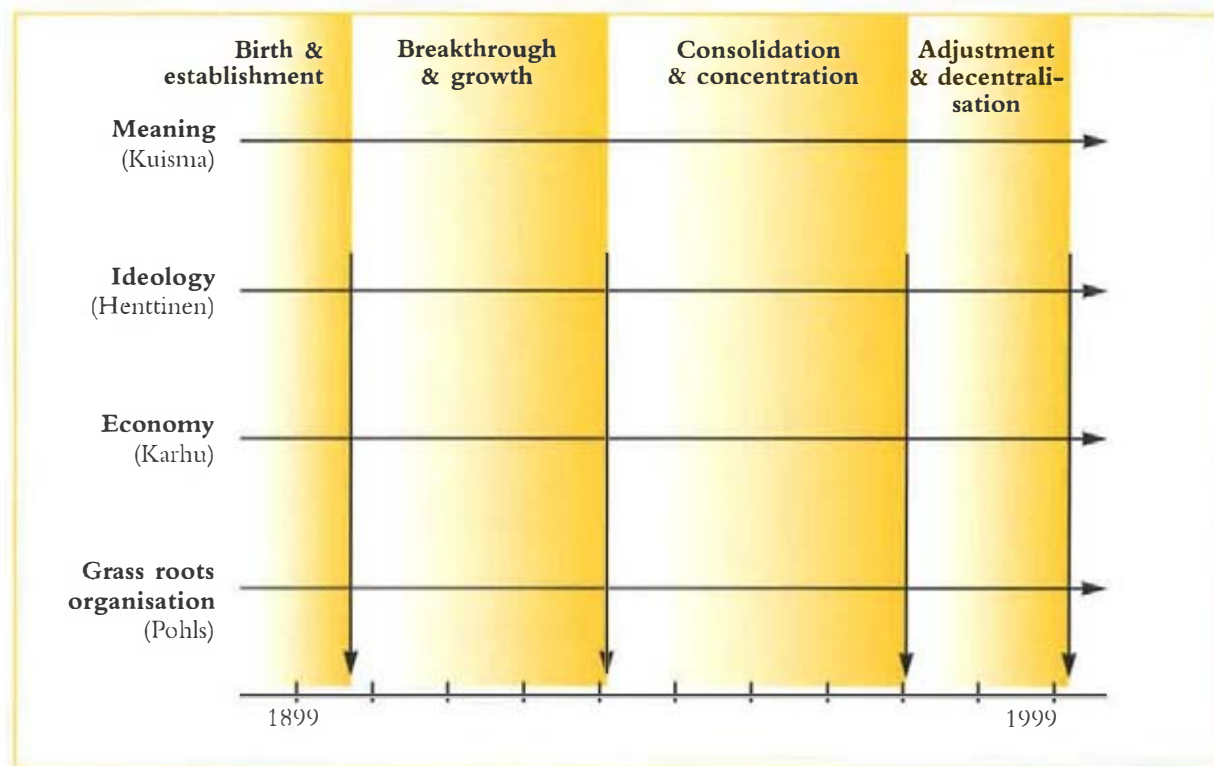
predominant in most produce markets in the United States (as they are in Finland and Western Europe), consumer-owned power plants supply electricity to one in eight homes, customer-owner mutual insurance companies sell half of all life policies, renowned firms of lawyers, accountants and even investment bankers are frequently employee-owned cooperatives, and similar forms of incorporation are winning in other fields. In his book *The Ownership of Enterprise*, professor Henry Hansmann of Yale University describes the producer cooperative as the basic form of enterprise and the joint-stock company as just one variant: an investor-owner cooperative.

### Three paths to the third way

The theory that the cooperative is the basic form of enterprise is just one of the many weighty reasons why it is important to consider the paths of development of cooperative enterprises and their socio-historical environment. The subject is tackled in this book by concentrating on one country, Finland, and one (and the largest) cooperative movement.

Although, to a large extent, the Finnish example follows the mainstream of Western European developments, there are aspects that make it particularly interesting. One of these is the coincidence of the turning points in the Pellervo cooperative movement with the crucial economic events in Europe and the world. The cooperative enterprises that grew up around the Pellervo Society were founded at a time when international industrial capitalism was emerging as the dominant social and economic system. The old and traditional methods of operating were no longer sufficient in a situation where external market forces were rendering the farmers, workers and even part of the emerging middle class defenceless. And to countervail this threat, Pellervo and the "underprivileged", largely on the initiative of a sympathetic nationalistic intelligentsia, combined their forces to establish enterprises.





### *The historical periods of cooperation*

Two structural solutions have been used in the book. The first treats cooperation from three complementary approaches – ideological, economic and grass roots. The second solution studies the century-long period within

each of the three themes through the four essential historical periods – birth and establishment, breakthrough and growth, consolidation and concentration, and adjustment and decentralisation.

The situation at the turn of the century is analogous with the present one in that the international economic and political system is again seeking a new kind of equilibrium. National systems once thought to be permanent are being forced to adjust to the demands of a supranational market. If the Finnish answer to a radically changed environment in 1899 was Hannes Gebhard's idea of cooperation, so the crisis of the 1990s has again raised the question of the complex relationship between cooperation, competition and capitalism.

The aim of this book is to describe the century by concentrating on the birth, rise and main turning points of the Pellervo cooperative group. The basic idea is to link historical analysis to the

interaction of business operations, ideologies and power structures with local, national and international developments, and to discover the characteristic Pellervo response to the opportunities and threats contained within this complex totality. This has a particular relevance because, with the deepening of European integration, cooperative enterprises are faced with one of the most serious crises in their history. Thus the understanding of background and historical origins gained through the critical analysis of long-term developments will help identify and counter future challenges. At the very least it will offer a more general framework in which to analyse the creation and operations of individual enterprises in sufficient depth.

Such a task is both ambitious and extremely laborious: even the in-depth study of one company in all its complexities is an arduous task, not to mention a totality like Pellervo which includes a group of companies operating in a variety of fields, a broad popular movement with all its local and national nuances, in addition to an ideology difficult to define, the political and economic influence and expression of which has varied both in time and manner. For this reason it has been necessary to limit the perspectives and approaches to the subject, and also to admit that the innumerable questions, events, phases and people left out may well appear essential when viewed from another angle.

The choice of perspective is always a question of interpretation. In this case it developed out of a three year project entitled *Cooperation, competition and the challenge of capitalism. Pellervo cooperation and Finland 1899–1999*, which favoured the three above mentioned approaches. That is, that the three central elements in the idea of Pellervo could be condensed into corporate operations, popular movement and their ideological-political ties. Thus the book consists of three independent, but closely interlinked studies; three different paths from three different directions that converge in the analysis of the historical significance and role of the third way represented by the Pellervo idea. The second strategic solution in the study was to concentrate on the movement's main historical periods: birth and establishment (turn of the century), breakthrough and growth (1900–1940 and 1930s), consolidation and concentration (from 1940s till mid-1980s), and adjustment and decentralisation in the face of global competition and European integration (mid-1980s onwards).

Annastiina Henttinen's "Searching for the third way" focuses on the centres of political and economic power. Part of her study considers the Pellervo movement from the point of view of its ideological, political and social strategies: as one way Finland and Finnish society responded to national and international pressures. The study concentrates on the principal influencers, leaders

and ideologies, and an analysis of the power relationships and networks in the Finnish system. It deals, on the one hand, with market-oriented capitalism, and on the other hand with the third way which rejects the socialist model and ties to combine creative and free enterprise within the dynamism of cooperation. In doing this, Henttinen moves in an area in which many of the main events of Finnish history – Russian repression, civil war and the threat of Sovietisation – intersect in an interesting way. Similarly the political connotations of the idea of neutrality honestly furthered by the Pellervo movement receives a natural historical interpretation.

Sami Karhu's "The cooperative economy and its strategies" is concerned with corporate activities. The aim is to describe the position and phases of Pellervo corporate operations in Finnish economic life, describe the common and differentiating features by analysing the internal and external factors that influenced their development and successes (or failures). He goes on to discuss the role and aims of the Pellervo Society, the establishment and leading position of the central societies, capital management, the close connection between protectionist regulations and the Pellervo food industry, and the rise of the agricultural producers organisation MTK. Karhu also deals with the relations between managers and owners, companies and the state, the radical changes in the competitive environment during the 1990s, as well as the contradictions between producer and consumer cooperatives.

Essentially, Karhu's essay is not a history of individual companies or a corporate chronology. This collective history of Pellervo operations and strategic choices by no means replaces corporate histories of which many have been, or will be written. The in-depth research which the history of individual enterprises allows (and which, for practical reasons, was impossible to include here) also offers a better opportunity for finding exhaustive answers to many of the important questions raised in Karhu's study.

Maritta Pohls's "A people's movement in Kuortane" is a grassroots study. It takes the

Pellervo Society away from the metropolitan professors and businessmen to focus on one of the rural communities it was created to save. In concentrating on "small" and "local" issues, Pohls seeks the answers to such broader issues as: Was the Pellervo idea just a mass movement subsidised from above? Was it really possible that the centre (Helsinki) alone could bring into existence a popular movement embracing hundreds of thousands of motivated people, the importance of which was crucial to the economic and social development of the countryside? What was the significance and role of the local tradition of working together, local initiative, economic, political, individual and collective interest, ideas and ideologies in the great and many-sided process that gave birth to the popular movement and its local, provincial and nationwide enterprises?

Whereas Pohls approaches the subject through an in-depth study of one locality, Henttinen and Karhu move in the world of corporate leaders, government and interest groups. Pohls creates a picture of the *modus operandi* of a local community – as well as the interaction of local, provincial and national elements on the birth, growth and local consolidation of Pellervo cooperation – through using the community of Kuortane as a laboratory, something that could not have been

achieved through a general study embracing the whole country.

★ ★ ★

Three views of the Pellervo movement and at the same time three paths to the third way, which is one means of obtaining an overall picture of an important societal phenomena. By following each path, answers, images, interpretations are obtained and, perhaps, more new questions raised that demand new answers. By travelling all the paths the picture becomes clearer, but never complete. For this reason it is useless trying to weave together the tens of threads that these three essays offer together and separately. The stories speak for themselves.

One impression that emerges from the whole is perhaps worth emphasising, although in doing so there is the danger of stating the obvious: the victories and defeats experienced by the Pellervo movement reveal that the century – if not centuries – long debate concerning the correct relationship between market forces and public interest, competition and cooperation, national and international, local and global, has yet to be resolved. It also shows that, in addition to political movements, this debate concerns companies seeking improved operating models, civic organisations demanding greater justice, and the whole of civil society.

## HANNES AND HEDVIG GEBHARD: PIONEERS OF PELLERVO COOPERATION



Hannes and Hedvig  
Gebhard on their  
honeymoon in  
Copenhagen, 1891.

**H**annes and Hedvig Gebhard are considered by most to be the architects of Finnish cooperation. Without their industry and enthusiasm it is doubtful that the movement would have grown so quickly.

Both of them were typical late nineteenth century Finnish intellectuals. Hannes Gebhard, who had taken his PhD in history at Helsinki University in 1890, was fired by the nationalism of the age. He realised that the emerging Finnish nation would be predominantly agrarian because its people mostly gained their livelihood from the fields and forests. Whilst accompanying his father, a forest officer, on his journeys around the country, he had

experienced at first hand the misery of the crofters and peasants.

Hedvig Gebhard came from a merchant family. After grammar school she continued her education in Stockholm, returning to Helsinki upon receiving special dispensation to study at the university. At that time only a very few women were allowed into this prestigious seat of learning. Being Swedish-speaking, Hedvig had to take Finnish lessons from Dr Gebhard in order to acquire the necessary competence. They fell in love over their textbooks and were married in 1891. Hedvig gave up her studies in order to help her husband in his researches.

Ultimately Hannes Gebhard abandoned history

in favour of the more practical subject of the role of agriculture in the national economy. When he received a scholarship to study farm economics in Germany and Austria, Hedvig accompanied him. She proved of great assistance in collecting material in libraries, as she was more linguistically gifted than her husband.

## Concern for the nation's future

Their European travels sparked off an interest in cooperation. This, they soon realised, was the means by which the conditions of the underprivileged members of society could be improved. For Dr Gebhard, cooperation offered a way for farmers to increase productivity and make their holdings viable. Though sharing her husband's beliefs, Hedvig Gebhard, was also concerned with the plight of women, especially housewives, and felt that their work demanded full recognition by society.

Increasingly repressive measures by the Russian authorities culminated in the February Manifesto of 1899, which seriously undermined Finland's autonomous status. This gave rise to a gigantic protest movement. The Gebhards, like most other Finns, believed that some compliance was the best policy as Russia was too strong to resist.

The most effective way to strengthen the nation and increase its awareness was through improved education and greater prosperity of its majority, the smallholders. This was the same idea as the Finnish philosopher J.W. Snellman had preached since the mid-19th century. From this came the idea of setting up the Pellervo Society (in 1899) to spread the idea of cooperative enterprise throughout the country. In concrete terms this meant establishing cooperative enterprises and giving them all possible support and advice.

## The Pellervo Society

It was a matter of course that Hannes Gebhard was elected chairman of the board of the Pellervo Society, positions he held for the next twenty years.

Although Hedvig had no official position in the Society, she was Hannes's faithful assistant and the anonymous author of many of its publications. Few had her deep knowledge of the international cooperative movement, and she reported its activities in the Society's newspapers and pamphlets.

The fields closest to Hannes Gebhard were Hankkija and the cooperative bank OKO, because the one provided the farmers with their agricultural supplies and the other the loans to improve their farms. He helped in planning the operations of these companies and was managing director of OKO Bank until his death.

He was, at least to begin with, less enthusiastic about the retail cooperative societies, considering them unworthy of any great sacrifice as they did little to enhance the national economy. Nevertheless, when SOK was established he wished it to be included in the Pellervo family. Hedvig Gebhard, on the other hand, recognised the importance of consumer cooperation to women and its potential for improving their lot. She was elected to the supervisory board of the Helsinki workers' cooperative society Elanto. When the movement split into progressives and neutral, she left Elanto to join the supervisory board of SOK where she remained until the age of 81.

## Working for Society

Both the Gebhards were active in the Finnish Party, particularly in social questions, and they were elected to parliament in Finland's first democratic elections in 1907. As such they were the first married couple in the civilised world who took part in formulating legislation. The work of being an MP did not suit Hannes' impulsive nature and so he refused to stand for re-election in 1909.

Hedvig Gebhard also resigned then to look after their three children and the no less arduous task of cooperative propaganda. In 1919, however, she returned to parliament where she remained until 1929. In such issues as the position of women and other social questions, Hedvig was more interested in getting things done than following the party line.





Hannes Gebhard (1864–1933).



Hedvig Gebhard (1867–1961).

Outside parliament she was an active member of the feminist Women's Union, helped in promoting and organising domestic science education, and served for a long time as chairman of the editorial board of the influential women's magazine *Kotiliesi*.

From 1898 to 1908 Hannes Gebhard was secretary of a state committee established to study and survey farming conditions and draw up land redistribution proposals. His university post as professor of agricultural economics allowed him to amass the knowledge on which his whole life's work was based.

## Principles

The Gebhards were responsible for introducing the principles of international cooperation into Finland. This was by no means an easy task but, as Hannes often said: "It must be a bad thing if nobody opposes it."

Although the starting point in cooperation was

voluntariness, the Gebhards thought it so important that persuasion was justified. Democracy was also difficult for many to swallow; how could a wealthy farmer negotiate on equal terms with a crofter?

Loyalty to an idea that had been accepted as just and right, was another important principle. Political neutrality, too, belonged to cooperation even though the Gebhards were themselves fairly politically committed. The principles of knowledge, working together and social responsibility were, however, the most essential.

Pellervo believed that Finnish goods could compete on the international market on the basis of quality alone, likewise quality was decisive in the goods required by agriculture. Thus product development played a major role in the work of local and central cooperative societies. Knowledge was also essential and lectures by experts became the star turn at coop meetings.

The Gebhards saw cooperation as a network linking localities to the centre and vice versa. If local

coops could influence the state, this would reflect in improved circumstances. Likewise inter-society cooperation was important, or as Hannes put it: "Let's be as servants to each other."

Thanks to the Gebhards, the Finnish cooperative movement had extensive international contacts. Hannes was greatly interested in Ireland and Denmark, because of their similarities to Finnish conditions. Another country of interest was Germany, in particular F.W. Raiffeisen's cooperative banking organisation. Hedvig was greatly influenced by the writings of the indefatigable English social researcher Beatrice Potter. The Pellervo Society joined the International Cooperative Alliance, channelling the ideas of the global movement to the people of Finland.

As an idealist, Hannes Gebhard believed in the triumph of cooperation. For some time this seemed possible, but later when it failed to materialise in the way he envisaged, his disappointment was profound. The consumer cooperatives split into progressive and neutral fractions. The Swedish-speaking societies separated from the Finnish-speaking ones. Cooperative slaughterhouses were established that were only cooperative in name. The state-supported farmers' associations were not sufficiently cooperative-oriented, preferring to establish limited companies owned by their board members.

In 1917 a disappointed Hannes Gebhard resigned from the Pellervo Society. Although his bitterness was great, he never withdrew his support for the small farmers. In 1922 he founded the egg exporting cooperative Vientikunta Muna (nowadays Munakunta) in the belief that chicken raising would

prove a useful supplement to farmer households. And about the same time he set up the Central Union of Smallholders to defend the interests of this group.

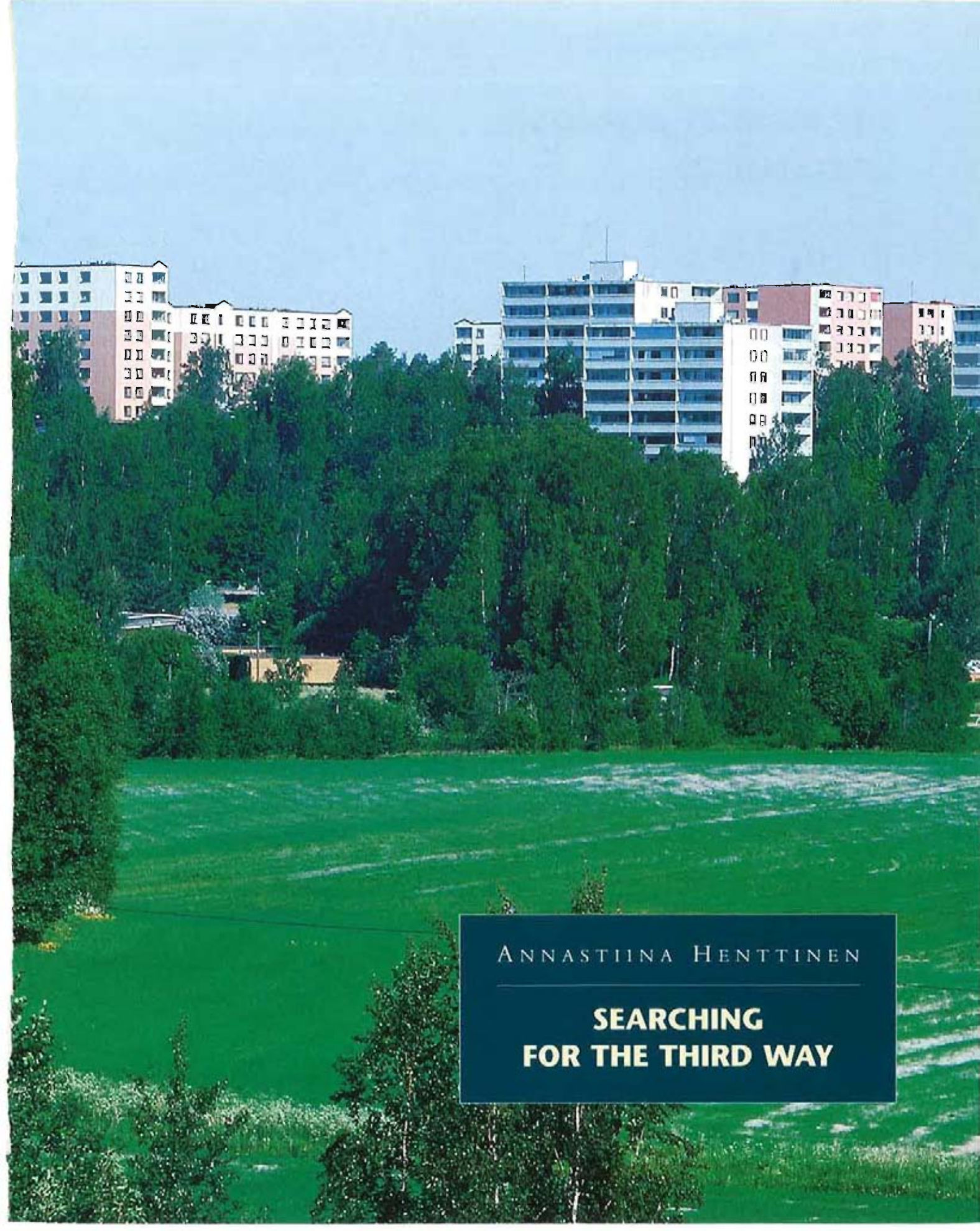
Hedvig Gebhard, however, did not take such an extreme stand: "Differences of opinions are considered as a sign of weakness, but not so in my opinion, though I'm naturally pleased when they can be resolved. Life's like that; the ordinary lives of people are full of light and dark moments. And it's the same in society, there are always conflicts and contradictions, so how could it be different in the cooperative movement?"

## Two people

In their own special way, both the Gebhards were conscientious idealists. Hannes was a fountain of ideas, a planner and organiser of great vision. Hedvig was more practical and particular, a conscientious achiever, more feminine than emancipated fanatic, whose presence ensured that things got done.

In one respect, however, Hedvig was unflinching: Cooperation meant solidarity, equality and working together, in which there was no difference between men and women. Hannes, on the other hand, was always certain of his opinions and his evaluations of conditions and people. He was a man of clear judgement, with equally strong sympathies and antipathies. Such gifted people are always like a multifaceted crystal, which sparkles in different and often conflicting colours.





ANNASTIINA HENTTINEN

**SEARCHING  
FOR THE THIRD WAY**



# THE MARKET ECONOMY CHALLENGED

## A national emergency

The idea of the Pellervo Society came into being in the spring of 1899, a time of great grief, national awakening and hope, in the words of Dr Hannes Gebhard, one of the prime movers of the Pellervo cooperative movement. At the time, Finland was an autonomous grand duchy of the Russian Empire. In February 1899 the tsar had issued a manifesto that shook the legal basis of Finland's autonomy, spreading unease and forcing intellectuals to take action. The new situation raised the spectre of Russification, which would jeopardise the culture and national existence of Finland. The response called for a private organisation for popular education and enlightenment, and in Finland one answer was found in the cooperatives. They could act as a shield for Finnish culture, for it was felt that the authorities could not disband a socially and economically constructive movement of this kind.

Finnish intellectuals were concerned about Russian rumours of a land reform, which might alienate the rural poor from the united national front led by the educated classes. The Russians wanted to show how the tsar took better care of the Finnish poor than its own leaders. This meant that effective means soon had to be found to improve the educational and economic standards of the common people. In the summer of 1899, when

patriotically inspired university students went out into the countryside to lecture to the people, they also took upon themselves the task of proclaiming the importance of economic cooperation.

The budding cooperative movement would certainly have emerged in Finland before long, even if no proclamation such as the February Manifesto had been issued. But action would hardly have been taken so quickly had the Manifesto not shocked the Finnish intelligentsia and "revealed the great failings in the position of the nation's poor". Just before the Manifesto was issued Gebhard published his trail-blazing book on farmers' cooperatives abroad. In Ireland, which also suffered from foreign rule, Gebhard had realised that cooperatives were the only answer. Ireland and the Irish Cooperative Organisation Society (ICOS), also provided the model for a central organisation of cooperatives, the future Pellervo Society. Founded in the autumn of 1899, the Pellervo Society pointed the way for the cooperative movement in Finland and, in practice, was instrumental in launching it.

Since the Russian authorities had branded ideological popular education as anti-Russian nationalism, the leaders of the cooperative movement had to operate with tactical wisdom

Edward Isto's painting *The Attack*, 1899, depicts a two-headed eagle symbolising Russia trying to wrench the constitution law from the hands of the Maid of Finland.





and keep a low profile. The solid anchoring of the movement in the Finnish countryside would make it a difficult opponent for the authorities. It would not be easy to disband a networked economic movement with deep roots among the people. The Pellervo Society's policies were marked by a certain caution, since its travelling advisors in the countryside could face problems as the authorities tried to ban public lectures. Its magazines and advisors were told to use great caution in discussing the Society's work. The Russians, for example, opposed the planned central credit fund for the rural credit societies, OKO Bank. The Russian governor-general believed the fund would develop into a forum for anti-Russian propaganda. When this scheme was finally realised, the members of the Finnish Senate were still cautious of appointing people to the board of OKO (1902) who the Russians thought were undesirable. The Senate, however, took a favourable position regarding the Pellervo movement, and was instrumental in the quick passing of the Cooperative Societies Act (1901) and related legislation.

The apolitical nature of the cooperative movement was underscored in order to hide its activities from the suspicious authorities. The unique role of the movement in the national resistance of these years was said to have come from its economic agenda, which was pro-market economy and explicitly non-political. It was realised that the authorities could hardly oppose the increased affluence and political pacification of the common people. Hannes Gebhard's programme won support among Finns especially because it was felt necessary to rally the people after the Manifesto and that the cooperatives were believed to reinforce the national front. For the Old Finns, the supporters of the Finnish Party who believed in consenting to Russian demands, contacts with the Finnish-speaking commoners were important for purely selfish political reasons. The Old Finns had been scorned by the Constitutionalists who took a more radical stand on Russian demands. The cooperative movement would help them to break out of their political isolation.

The cooperative movement was thus intended to build a bridge between the educated classes and the common people. It was also meant to foster brotherhood among the classes locally and to unite the politically divided intelligentsia behind commonly shared patriotic objectives. OKO was founded by a wide range of people representing agriculture, trade and industry in the spirit of uniting the different classes of society. Ideal situations at the local level were ones in which people from different classes would come together to establish a cooperative and in which an estate owner would also enrol his tenants and pay their shares. Cooperation was not meant for freeholders alone, as the workers were expected to establish retail cooperative societies. These became the type of cooperative most prominent in integrating the different groups of society. The Pellervo Society, however, did not initially support retail cooperative societies in the countryside because of its doubts about their viability. Farmers were encouraged to arrange the joint purchases of goods and equipment through other forms of cooperative.

## Cooperatives and popular education

The Pellervo cooperative movement strongly relied on the old Finnish tradition of popular education as its guiding light, as well as the more recent Grundtvigian spirit of self-sufficiency and self-education. Like the Rural Youth Movement, the cooperative movement also saw the education of the individual as a precondition of social progress. The cooperatives represented a new kind of practical popular education, for their goal was to lead the people through education, but even more through private initiative, to intellectual and material well being. In addition to lecturing on morals and patriotism, there was also the desire to alleviate the physical distress of the common people.

The credit societies, the precursors of the cooperative banks, were specifically regarded as

educational institutions for farmers, a kind of social school for civic skills and moral backbone. When auditing the local funds, OKO's advisors would also investigate the degree of temperance, honesty and educational activity. The model for the credit society movement was the one established by F.W. Raiffeisen in Germany, as this was thought to contain a sufficient degree of moral values. The managers of small local societies knew all their members, and the reliability of borrowers and their use of loans were monitored. Members were jointly responsible for the financial obligations of the society; there were no dividends and the property was held in common. The objective here was moral education rather than economic advancement. The actual producers' cooperatives placed more importance on the study of market sense and skills.

Many of those higher up the social ladder would have placed more weight on the Pellervo Society's moral education. Soon after their initial enthusiasm, the attitudes of some intellectuals cooled down and their contribution to the Society diminished. Some feared that the cooperatives would compete with their own businesses and organisations, while others remained alien to the whole concept of cooperation. From the outset, a section of the educated classes doubted the sense of measures intended to improve the economic conditions of the common people and found the cooperative agenda altogether too radical. For many, spiritual and moral education were more familiar than the materially oriented cooperative ideology. Adult education institutes had initially debated whether it was at all proper for them to include a practical subject, such as cooperative operations, in their curricula. The Pellervo Society finally managed to win acceptance among the adult education institutes, the agricultural schools, and the youth and temperance movements.

## The third way

In his 1899 book on farmers' cooperatives abroad Hannes Gebhard admitted that free competition

had created wealth. But brutal competition has also freed man of all collective responsibility and had lead great numbers into the slavery of accumulated capital. This had led to the emergence of revolutionary socialism. Gebhard, however, focused more on the cooperatives, an emerging form of economic collaboration between citizens. He felt that they, too, were the outcome of the undesirable consequences of ideas of freedom.

The goal was a third way, with cooperation coming between the poles of capitalism and socialism. The Pellervo Society acknowledged that economics dictated politics, but unlike the highly vocal Marxists of the time, they wanted to build a new society peacefully, basing it on the free will and moral evolution of people instead of the laws of nature. For them, the cooperatives were an independent movement that would slowly, step by step, reconstruct the economy. The interests of consumers demanded that the cooperatives expand into industry and take over one sector after another. In maintaining the independence of the farmers, the cooperative movement had to create strong marketing organisations and industries for processing farm products. The new world order would create a sounder society by doing away with superfluous factories and commercial enterprises. It would reduce the number of people living on capital gains and trading profits, and would swell the ranks of those living from their own labour. The cooperatives were an economically and socially more advanced form of enterprise that no power on earth could resist. The confidence of the cooperative activists expressed a faith in the inexorable progress of society similar to the views of the socialists. In Western Europe this new ideology had even been named the "cooperative faith". Its supporters hoped that the contradictions between labour and capital would be dissolved through cooperative action and that the capitalist system would take a more socially oriented character without violence or even state intervention.

The Pellervo movement found itself in the crossfire between the main ideologies of society, for its rhetoric included sharp criticism of private



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shopkeepers and merchants, whose business operations were often branded as unscrupulous. In a similar vein, Valio, the butter export organisation of the local cooperative dairies, was criticised by private butter distributors. The cooperatives and their members were also accused of defaming the morals of private businessmen, of trying to eliminate shopkeepers, of utilising officials hired with government funds and gaining tax benefits for cooperative societies. Businessmen also stressed the need to respond to competition from the cooperatives by grudgingly giving them some recognition. The German cooperatives had been accused of straying from the principle of self-help by accepting government subsidies. There, too, the cooperatives were claimed to lead the middle class to ruin and it was demanded that they pay higher taxes. Thus for a long time the state, the church and the political parties had opposed the cooperative movement.

The cooperative movement sought to protect the interests of labour and to reduce capital income. A cooperative was not a union of capital but of individuals, intended to improve the conditions of its members through their collaboration. The idea



The Helsinki University's Student House where the Pellervo Society was founded in 1899. Pages from the minutes of the Pellervo Society's inauguration meeting.

of the fruits of labour belonging to the workers, the dream of a just division of income and freedom for workers were among the socialist-oriented values of agricultural cooperatives. On the other hand, the cooperative movement was marked by very conservative values. In Finland, it was at the same time a socially and economically radical agenda of reform



and a movement reinforcing national and political loyalty, social stability, private ownership and morals. It looked both forwards and backwards. In the future, even the rural poor would be functionally bound to the markets and their small contributions would accumulated into large amounts of capital. Old world values were sought through the hope that cooperation would restore communality, blur class distinctions and reduce the farmers' desire to give up their communities and occupations.

The leaders of the cooperative movement shared certain conservative values with those who wanted to preserve the existing social order. Cooperation was the ideology of many of the values of economic liberalism, such as industry, frugality and self-help. Despite its strong desire for change, the cooperative movement was conservative, for it took the existing economic system as its starting point, competed with other enterprises, respected private property and through spreading the money economy reinforced the basis of the whole system. The most far-reaching visions of the movement were radical but not revolutionary in any violent sense. The cooperatives were regarded as being closer to other reform movements. The non-socialist cooperative activists maintained that the movement did not seek to level conditions of ownership, ie, make everyone equally affluent; they only sought to improve their members' economy gradually. Cooperatives inspired their members to enterprise, self-sufficiency, and efficiency in production and improved quality. They also instructed members in careful animal husbandry, hygiene and punctuality. They created a "capitalism with a human face" through their ownership structures and educational work. It had long been customary for poor business principles and outright cheating to be part of the farmers' code of practice.

## **The agrarian-national and the industrial-international fronts**

The Finnish bourgeoisie had conflicting views of the basic political issues, the future of the nation

and the role of economic life. The basic division ran between the agrarian-national and the industrial-international positions. The proponents of farming felt that the growth of industry was a threat. There were heated exchanges of opinion between the camps, because anti-capitalist sentiment and land reform ran parallel in Finland. As the largest group of forest owners, the farmers also owned the source of raw material for the nation's main export industry. Cooperative ventures permitted the nationalist agrarians to raise the status of agriculture and to correct the "wrong course" of the 19th century, which had reinforced industrial capitalism and the workers' movement.

Only a few of Finland's leading businessmen served, temporarily, in executive roles in the Pellervo movement. Despite the suspicion of the Finnish-minded agrarians towards industry, the executives of the Pellervo Society included a few bankers and industrialists. Professor A. O. Kairamo, who was an executive of a forestry company founded in the early 1900s, had the most interesting connection with industry. The forest industry in particular was criticised in Finnish-minded circles, and Kairamo himself was a member of the Finnish Party, which was critically disposed towards capitalism. He was an important figure in the early stages of the Pellervo movement, chairman of the board of Hankkija (1908–1928,) and a prominent agrarian politician. The industrialist and large-scale farmer H. G. Paloheimo was another important businessman among the executives of the Pellervo Society. Critics were not slow to note the connections between Pellervo and the forest industry. Hannes Gebhard himself had been one of the sharpest critics of the forestry companies' land purchasing policies. It was no surprise that some of the Society's representatives came under public criticism when their links with the forest industry became known.

The new parliament, based on universal suffrage, provided good opportunities to serve the interests of the agricultural sector. The electoral reforms of 1906 had almost completely done away

with the political status of the nation's old elite groups and also with the former sympathy for the forest industry. Legislation restricting land purchases by the forest industry, passed in 1915 and ratified in 1925, halted the invasion of the farmers' forests, and made the industry dependent on the farmers for its raw material. This had far-reaching effects, for it ensured the wide distribution of forest income among the freeholders and laid the basis for future significant cooperation in the forest industry within the *Metsäliitto* cooperative.

The specific features of the cooperatives did not always make it easy for private businessmen and the cooperative activists to agree. It was not until the 1920s that the old idea of farming and industry being opposing poles gradually gave way to a national economic perspective and the agrarians' aggressive attitude towards industry began to soften. Mutual understanding among non-socialist agrarian and industrialist circles was largely facilitated by legislation on forest reserves.

## Cooperatives and keeping farmers on the land

The expansion of the smallholder class was largely argued for in terms of social policies, and later as a political and productive necessity. It was important to keep the landless population on the farms so that they could earn their livelihood. The social problems of the rural communities were loss of land and economic distress within the mechanisms of the market economy. Farmers were therefore urged to join forces and to study cooperative action, or risk joining the mass of landless country people. The farmer ideology relied politically on the idea that the smallholders were a moderate class that wished to preserve society and had to be reinforced against the degenerating influence of the industrial localities. This ideology was also influenced by Finland's position as part of the Russian Empire and fear of revolutionary socialism.

Pro-smallholder policies had to improve the

status of farming and raise the self-esteem of the farming population. The unfortunate aspect of swindles, for example, in the seed or fertiliser trade was the fact that they eroded the farmers' confidence in the profitability of their work. One of the overall tasks of the Pellervo movement was to demonstrate to farmers that their work was valuable and profitable. The productive aspects of the smallholder ideology were further underlined when a crisis arose in the supply of foodstuffs during the first world war. Bitter experiences of restricted grain supply and other factors raising the self-esteem of farmers charted the economic course of newly independent Finland, which now sought to be self-sufficient.

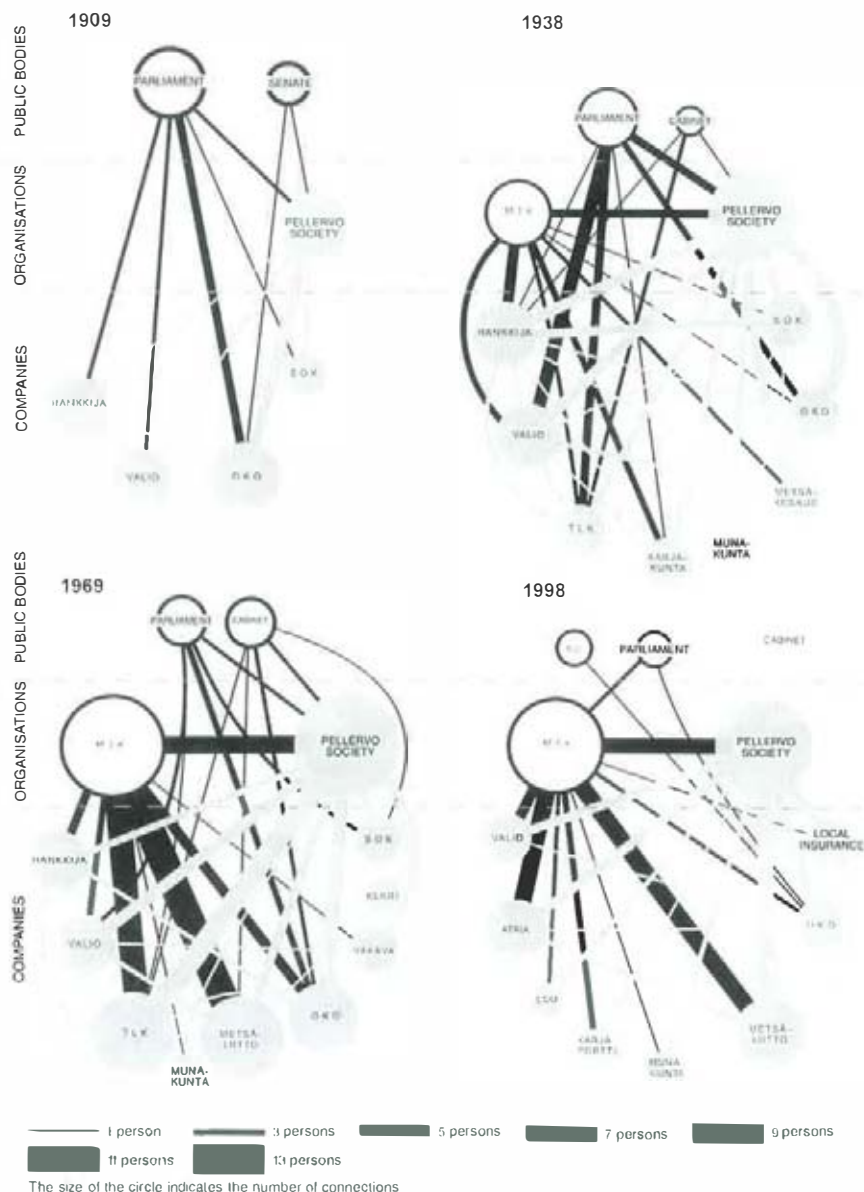
The years of political repression were an important period for the organisation of the cooperative movement and its propagation. The social problems, which the cooperative movement sought to alleviate, were older and of a deeper structural nature. The "trap" of capitalism and exclusion from society were problems to which the workers responded with their own movement. Protection for the farmers was sought in the cooperative movement. The purpose here was to obtain land for the landless with the aid of purchasing and credit unions and to keep the existing farmers on the land through cooperative dairies, credit societies and other types of cooperatives. It was important to bind the newly independent crofters and the already independent farmers to the cooperatives to ensure their still uncertain future.

In the public forum the same men who participated in the Pellervo movement addressed the problem of the landless population. The Society's prominent agrarian politicians felt that the redistribution of large areas to the landless with complete rights of ownership had only led to the land falling into the hands of companies and businessmen. As an alternative, they offered the cooperative. In the land-purchase cooperatives the farmers were not to receive personal right of ownership to the land distributed to them until the cooperative's state loan had been fully repaid. By improving the conditions of

### PELLERVO PERSONAL NETWORKS (in 1909, 1938, 1969 and 1998)

Connections between the cooperative societies and Pellervo are based on the societies' membership of the Pellervo Society. In other respects they are purely "personal unions" without any background in company or organisation membership or ownership. The line between the organisations indicates that

one person is a member of both top managements (executive boards/boards of directors, delegate boards/supervisory boards, ministers, parliament). The thickness of the line indicates the number of persons.





livelihood, other forms of cooperative activities would make the farmer stay on the land. There had to be some certainty that the land would remain unencumbered. An independent smallholder could easily fall into debt and under the control of financiers.

The lack of credit institutions for farmers, the power of loan sharks and the resulting acquisition of farms by businessmen had already alerted the leadership of the Finnish Party in the early 1890s. Plans had been drawn up for local credit institutions based on joint-stock companies. The credit societies came to be seen as a remedy to the curse of giving up the land. If a farmer could obtain proper credit he would not have to sell his produce or land at cut-rate prices in times of distress. Neither would he have to borrow from those who only sought to lay their hands on his property. The credit societies were meant to compete with the loan sharks and traders, who easily gained possession of the smallholders. The new "milk mills" were a new, regular source of income, but without credit from the cooperative loan fund the farmer could not yet clear fields or improve his property. The unsuccessful farmer was increasingly tempted to leave the land.

The problem of the crofters, or tenant farmers, began to loom as larger numbers of them were threatened with eviction or expulsion from their farms. Land-rent legislation had to be reformed to permit the crofters to remain as "happy" cultivators. The crofters were important for the agrarians, because they were politically aware and often skilled and successful as farmers. It was feared that a socially aware crofter class would become radicalised. They were also regarded as potential smallholders and future solid citizens. The agenda of the Finnish Party regarding the crofters was highly reformist, and the leading figures of the Pellervo Society played an important role in solving the whole crofter issue.

When the conversion of the crofts into freeholds began, the Pellervo Society closely linked the issue to the organisation of cooperatives. The redivision of land was to be combined with cooperative organisations such as

credit societies and dairies. In 1916 the cooperative credit societies had begun to grant long-term loans for the purchase of crofts and the establishment of new farms. The Society regarded the crofters' membership in cooperatives as important for the marketing of produce and the purchase of farming implements and equipment. The credit societies made it possible to improve properties and to repay state loans. There was also the political potential of making the crofters join the ranks of other farmers via the cooperatives. Until then, it had been felt that the crofters had remained outside the concerns of the farming community.

The director-general of the National Board of Survey, who was sympathetic towards the movement, ordered surveyors to inform the Pellervo Society of all major reparation of formerly rented land. The Society would then despatch its advisors to plan local cooperatives. The surveyors were given credit society manuals, and the members of the land-rent boards were urged to distribute the society's magazine *Pellervo*, published since 1899. OKO was finally awarded state funds to be loaned to crofters to help them become freeholders. The Society also received state aid to employ advisors in the crofter areas. The expansion of freehold farming gave the Pellervo cooperatives an added impetus.

The importance of cooperation was stressed as a precondition of success for former crofters, as ownership increased the risks caused by the farmers themselves, as opposed to the former threat of eviction. The failure of freeholders was a widely known phenomenon among the former crown tenants and farmers on donated land in the eastern areas of Finland. One of the lessons Gebhard had learnt in Ireland was that new freeholders easily fell into the clutches of moneylenders. The importance of land reform for the Pellervo Society is shown by its executives' marked commitment to the issue, although officially it was not on its agenda. The cooperatives involved people from different political parties, and there was no desire to ruin cooperation with political issues.

## Pellervo and the Constitutionalists

The cooperative movement found broad support among the non-socialist elements of society, for it was suited to the tenets of both economic liberalism and social reformism. Although Hannes Gebhard was mainly a German-style "state socialist", many other Pellervo leaders were liberals. New movements and organisations such as the cooperatives also gave the old elite a means to adapt to the new civic society. Even the nobility became middle-class and modernised and its representatives served in leading positions in the Pellervo movement. As a respected and recognised organisation of the new civic society, Pellervo was a field of action for a variety of political orientations, professions, and emerging and declining classes.

The cooperative movement was most closely linked to the late Fennoman, or pro-Finnish movement, which was evident in the markedly Old Finnish Party tone of the Pellervo Society and OKO. This is an indication of how the party was interested in rural issues, how the gap was widening between the Constitutionalists and the politicians who complied to Russian demands, how the leaders of the movement sought to ensure the favourable attitude of the state, and Gebhard's desire to man the important central societies with trusted men. The most important consideration was to have central society executives with political intelligence and status, contacts with the authorities and an interest in agrarian issues. Personal ability and interests overrode political attitudes. Gebhard felt that the local cooperatives could not give the administration of the enterprises the skills of university-trained personnel. There was a desire to spice the movement with Constitutionalists because of their expertise and also because a broad political basis spelt support, authority and independence from the vagaries of politics. Moreover, the local cooperatives represented the whole political spectrum. The Young Finnish Party was prominently represented on the boards of Valio and Hankkija.

Political discord entered the cooperative movement after the general strike of 1905. The leadership of the Pellervo Society, however, wanted to quell all politically tainted disagreements. Party differences had begun to emerge in the local and central cooperatives. In 1908, the Old Finnish Party feared that Valio would fall into the hands of the Young Finnish Party. Similar struggles had been waged in other enterprises. The Old Finnish Party complained of the difficulty of cooperating with the Young Finns, but they, too, had to be included for reasons of image.

The activists also wanted the Pellervo movement to include Swedish-speaking members, for Finland was a bilingual country. The Society had advisors for the Swedish-speaking regions and a Swedish version of the *Pellervo*-magazine. The Society felt that its democratic ideals would greatly benefit from winning gifted and educated Swedish speakers to its cause. Despite their Constitutionalist and conservative attitudes, many members of the Swedish-minded intelligentsia were not averse to the Pellervo movement. During the years of Russian repression they became interested in improving the position of the lower classes and in the ideology of self-help. But in general the Finnish-Swedish position regarding the Pellervo movement was distant and even negative. There were many who regarded the cooperatives and the Society as competitors. Most of the country's leading businesses were owned and controlled by Finnish-Swedes and for many years the farmers' societies had been led mostly by Swedish-speaking estate owners. The Society felt that the Finnish-Swedish sector described its activities in the wrong light and repeatedly denied support for it. During the first world war, the Swedish-speaking cooperatives finally left the Pellervo movement and established their own central organisation, the Finlands Svenska Andelsförbund.

The political fervour of the general strike of 1905, which ran parallel to the revolution in Russia, made it difficult for the cooperative movement to remain politically neutral. Elements within the Society began to feel that the

## EQUALITY AND DEMOCRACY



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Cooperation is the pioneer of democracy. When the first cooperatives were established in Finland in 1901 they observed the principle of equality in their administrations. The principle of universal and equal suffrage was introduced in 1906 for general elections and 1917 for local government elections. The goal of cooperation is to reduce economic and social differences.



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cooperatives could even be linked to a political party with some kind of economic agenda. The popular movements had developed political activism among the farmers, resulting in demands for a rural party independent of the urban powers-that-be. Hannes Gebhard and the Finnish Party tried in vain to gain control of the new rural party, the Agrarian Union (1906). The party emerged under its own momentum and Gebhard became one its staunchest opponents. At the same time attempts failed to develop a rural party in connection with the Pellervo Society and the Central Union of Agricultural Producers MTK (1917). Unlike the other Nordic countries, Finland never acquired an agrarian party founded on the agricultural producers' organisations, for the Agrarian Union was a broad-based rural party from the beginning. The political enthusiasm generated by the general strike was also beneficial for the cooperatives, as all the leading parties took the cooperative cause onto their agendas. On the other hand, the Old Finnish element in the Pellervo Society attributed the subsequent "recession of the cooperatives" to the political atmosphere of the post-strike years.

## The Pellervo cooperatives and the labour movement

In the early years of the 20th century, the Finnish Workers' Party, the predecessor of the Social Democratic Party of Finland, took an understanding view of agricultural cooperatives. Smallholders were urged to join cooperatives, the party was ready to distribute crown land to them, and state aid was demanded for agricultural cooperatives. A problem gradually emerged in the relationship of the consumer cooperative societies with the workers' movement. Some Social Democrats felt that the societies should support the party, while non-socialist cooperators and even many socialists opposed the idea. When the Workers' Party adopted a Marxist agenda in the early 1900s and universal suffrage heightened competition between the workers and bourgeoisie,

Pellervo's honeymoon with the labour movement gradually waned.

From the onset, the workers' cooperative movement feared that the societies would soon fall under the control of the Pellervo Society and the rural retail cooperative societies. Pellervo's leaders in turn feared the contagion of socialism and sought to dampen the enthusiasm for establishing cooperative societies. On the other hand, it could not refrain from steering the organisation of the societies. As the influence of the workers' cooperatives grew within the Finnish cooperative wholesale society SOK, ideological differences also developed within the movement. During the food shortages of the war years these differences included disputes between producers and consumers. The struggle over power in the central organisation heightened as the small rural societies grew in number and the large urban workers' societies began to support a system of representation based on membership. Until then, all the cooperatives had followed the one member - one vote principle.

To achieve victory in the struggle over SOK, the Pellervo Society finally accepted the farmers' societies as true members of the movement. The Society's advisors now began to spread propaganda on their behalf, after having first tried to dampen their enthusiasm. Not all the non-socialist leaders of the Pellervo Society and SOK could accept such paper-tiger tactics, or the complete intransigence of the Society's leadership regarding the demands of the workers' cooperative societies. As a result of this dispute they withdrew in 1916 from the Society.

SOK was faced with the problem of whether or not to join the non-socialist Pellervo Society. This issue, along with the producer-consumer conflict, disagreements over voting and the relationship of the cooperatives to socialism, finally split the consumer cooperative movement.



Väinö Tanner



SOK's former head office, near the railway station in central Helsinki, was completed in 1921. Nowadays the building accommodates a top level S Group hotel and restaurant.

During the first world war, the workers' societies first established their own ideological central organisation and then their own wholesale organisation. Väinö Tanner, the most prominent leader of the consumer cooperatives and later an important Social Democratic politician (as well as the long-serving chairman, from 1927 to 1945, of the International Cooperative Alliance, ICA),

attributed the split to the lack of free debate during the war years. As the normal forums of debate were absent, the party struggle moved into the popular movements.

The war had disrupted the supply and distribution of foodstuffs, which was reflected in relations between wage earners and agricultural producers. When price limits, for example, began to erode the profitability of milk production, the Pellervo Society also began to support the repeal of this policy. But the Society also strongly opposed black-market trading by farmers. Valio came under heavy criticism from consumers and the socialist press, and it was accused of speculating with hunger by maintaining a shortage of butter in order to have marginal prices revoked. Mobs attacked the company's warehouses. Unrest during the Finnish Civil War of 1917–18 greatly disrupted the everyday work of the cooperatives. In Helsinki, Red Guards confiscated the stores of SOK and the consumer cooperatives, while non-socialist cooperators began to take over the retail outlets of the socialist "progressives", although these ventures were only temporary.

The problems of the war years, the quelling of the red insurrection and other political issues had completely occupied the members of the Pellervo movement. The rural population felt that the wholesale and retail cooperatives had been made to serve the interests of consumers. The war reinforced the class-consciousness of the freeholders, and in 1917 MTK was established. After the war it was hoped that the farmers could safeguard their interests more effectively. The cooperatives were thought to play an important role in the struggle of the rural population against the growing domination of trade and industry.

## Nationalism in the economy

The nationalist ideology of the so-called Finnish movement entailed not only opposition to Russification by promoting a national culture, but also a process of conquering the Finnish-Swedish

influence in the state, as well as in cultural and business life. The Finnification of the economy was also associated with the social-reformist objective of restricting liberalist laissez-faire policies.

The strategy of making the economy Finnish involved institutions at different levels, of which the state was the most powerful. At the pinnacle was KOP bank (1889), a "stronghold of Finnishness". At a lower level, the cooperatives, through their members, represented a form of enterprise deeply rooted in the Finnish people. KOP and the cooperative credit societies had common roots in the Finnish Party. While the bank had been established to promote the Finnish-speaking sector of business and industry, the credit societies served the Finnish-speaking rural population. KOP financed Pellervo enterprises and supported the credit societies. The same persons sat on the boards of both KOP and OKO. A similar spirit, however, was not a matter of course, for the rural areas had not enjoyed the support of the nationalist-spirited bank. Cooperative activists also feared that word would get out about how the all-powerful KOP even dominates the cooperatives.

The protagonists of cooperation and so-called national business nevertheless saw the nation's affairs in a different light. Which had to come first: the Finnification of business or its democratisation? When a number of Finnish-minded businessmen established an enterprise to compete with Hankkija, Hannes Gebhard regarded this as contrary to the programme of the Finnish Party and its aim of national unification. Since cooperatives were the best means to foster national and communal sentiment, Gebhard felt it was wrong to develop "nationalist" ventures on the grounds that the politically unaffiliated Hankkija could not take over the field from the Swedish-speaking enterprises.

It was not the concern of the Pellervo Society to support nationalist business as such if it did not entail the principle of self-help. Many of the Old Finnish supporters of the cooperatives felt that the Finnish Party had not taken an explicitly pro-cooperative position, because the business ele-

ment within the party had a negative attitude. Several members of the Finnish Party had become capitalists and industrialists, while others still viewed the future from the perspective of agriculture. The latter were civil servants and academics, who took distance from the boisterous world of the capitalists, the cities and the aims of the working class. Their protégés were the smallholders, who were now suffering from current developments.

Nationalism and a belief in national progress marked the economy. The nationalist ideology had included not only Finnification, but also the work of developing the young nation's economic resources, productive capabilities and living standards. The economic sphere also saw the importance of promoting the spiritual and intellectual state of the nation. It was in cooperation that the goals of optimism and intellectual growth were combined. The credit societies felt they were taking part in a major national project and great hopes were placed in the young Valio company. The national project also entailed channelling butter revenue directly to the producers, making the butter trade honest and reliable, and improving the quality of Finnish butter on the international market. The founding of the Valio laboratory in 1917 was part of the project for laying the foundations of an independent economy. A. I. Virtanen (1917-1973), for many years director of the Valio laboratory and the Chemical Research Foundation, and recipient of the Nobel prize for chemistry in 1945, considered the award as homage to Finland's cattle raisers, cooperative dairies and the Valio organisation, for he had carried out the research in its laboratory.

For many years, different industries and occupations vied for status within the ideological framework of national progress. The needs and interests of the economy as a whole gradually overrode the separate concerns of agriculture and industry. The clarification of national interests and legislation restricting forest ownership by the forest industry, made even Hannes Gebhard more favourably disposed towards the export industries.

The experienced and able forest industry, bringing in foreign earnings, proved to be the mainstay of an independent national economy. By 1919, Gebhard no longer wanted an outright ban on forest ownership by the wood-processing companies, as it now appeared possible to deal with the social aspects of this issue by the voluntary reparcelling of land. Freehold ownership was basically ensured, while a gradual understanding of the role of private enterprise in the forest industry spread among agrarian circles.

## With the support of the state

The Pellervo movement developed close links with the state, which supported the cooperatives and gave aid to the Society. The authorities often worked for the same objectives as the Society and would ask for its opinion in agricultural issues. The Society also carried parliamentary weight. Many cooperators were also legislators and prominent figures in politics. Members of parliament headed the central societies, and Pellervo executives were also senators and civil servants.

For example, between 1903 and 1905 the Agricultural Commission of the Finnish Senate (ie, cabinet) was chaired by A. O. Kairamo of the Pellervo Society. During his term as senator, state aid to the Society grew, the state financed dairies and cooperative-related subjects were included in the curricula of state farming colleges. People closely associated with the Pellervo Society served in executive positions on the State Accounting Office, the State Finances Commission, the Agricultural Commission and the State Board of Agriculture. The latter collaborated with and supported and monitored the activities of the farmers' associations. The Pellervo Society consistently demanded that civil servants in the agricultural administration should be familiar with the cooperatives and take a positive attitude towards them. Gebhard felt that the state and its officials should only support the cooperatives, but not take the initiative.

In the autonomous grand duchy, the Pellervo

Society received state aid and thus had to be careful in its relations with the authorities. The Russians tightened their grip on the country in the early years of the 20th century and senators were replaced by pro-Russians. The Society became concerned about the attitudes of senators who were taking pains to ensure that it was not a radical, "socialist" or indeed any kind of political movement. The most visible sign of the state's cooling interest was when it reduced its aid. The Society's proposals for revisions to the Cooperative Societies Act were shelved, and its new by-laws were not officially ratified. The Senate increased the official supervision of the cooperatives, and after the outbreak of the first world war the police prevented them from holding meetings. The tsar granted a reduced loan sum to OKO, and even this could not be taken up in full. After independence in 1917, the state turned a responsive ear to the needs of agriculture and official financial policies often coincided with the interests of the agricultural producers' cooperatives. Among other projects, the state developed business operations serving the interests of agricultural producers. The Pellervo Society nevertheless had reservations concerning state-owned industries, although the Finnish Party had favoured a modicum of state control.

## A centralised model for the cooperative movement

Traditional, pro-Finnish popular education work was centrally administered, the idea being to concentrate operations and group interests within a joint umbrella organisation, condemning factionalism and political activities independent of the state as contrary to national unity. The cooperative movement was asked to keep politics and economic matters separate. Like many other organisations in Finland, the central cooperatives remained centralised and stable for many years, although this was not successful in the case of SOK. These developments, the separation of Swedish-speaking cooperatives from the



movement, the founding of a new central society Karjakunta (1918) against the will of the Pellervo leadership, and disagreements with the farmers' societies were subjects of particular concern for the leaders of the Pellervo Society.

Owing to its centralised nature, the cooperative movement in Finland emerged and developed differently than elsewhere. Central societies seeking to steer the activities of cooperatives were rapidly established. In other countries, the movement developed primarily through the founding of primary cooperative societies, and there could be several unions and central cooperatives within the same field. The exceptional course of events in Finland can be attributed to the tradition of popular enlightenment, the pressing need to respond to Russian oppression, the country's small population, the thin veneer of educated people in the countryside, and the recent appearance of popular education and agricultural organisations.

The central administration maintained that a quick utilisation of the unity fostered by Russian repression called for planned effort and centralised guidance. It was also felt that by being steered from above, the cooperatives would benefit from the best human resources and avoid making undue errors. When the forest cooperatives failed to work, a central cooperative was also established for them in 1921 empowered with the task of "creating" local cooperatives, just as OKO had established the local credit societies. Strictly speaking, consistent guidance and steering from above was in conflict with the principle of self-help. There were also conflicts between the centres and the grass-roots level. Despite the desire to guide and steer matters, the Pellervo Society also envisaged that cooperation would grow into a strong tree from the roots upwards. The Society had reason to expect certain basic skills on the part of the rural population. Finns were familiar with basic-level popular cooperation and there had been cooperatives before the Pellervo movement, albeit dispersed and disunited.

The demands of rural members for greater participation in the management of the Pellervo

Society and the central societies gradually increased. The Old Finnish intelligentsia had adopted democratic ideals and the cooperatives had followed the principle of one man - one vote long before the introduction of political democracy. Although the Society boasted of its democratic projects, new concepts of free and democratic civic activism began to supersede the patriarchal order maintained by the old champions of democracy. These ideals of democracy nonetheless had an original content that was regarded as apolitical. It did not call for restless activism from below but for a calm, concerted and steered movement from above for the common good.

It had already been proposed at the 1901 annual general meeting of the Society that rural people be appointed to its board. Some of the members of the intelligentsia involved in the Society regarded this as a direct demonstration against the board. For many years, the board included only one farmer, alongside doctors, professors and university graduates. The membership included few farmers or local cooperatives and far greater numbers of civil servants, clergymen and teachers, as well as townspeople, especially from Helsinki. Between 1907 and 1909 the Society reformed its administration and management in order to increase the influence of rural members and the local and central cooperatives. It was felt, however, that there was no hurry to fulfil the wishes of the rural membership, and the central societies did not yet wish to join. The management was to be kept free of corporate executives, who would only serve as experts on the board. The reforms were soon taken up again, because the rural members wanted a more democratic system of electing the board and the central societies demanded influence in return for the funds they provided. The leadership did not look kindly upon the changing of an "aristocratically altruistic" era into a "democratically egoistic" one, but the by-laws were nevertheless revised. From 1918 only cooperative societies instead of individuals were accepted as members. Alongside the board there was now a council of representatives and the authority of central and local cooperatives began to grow.

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# BUILDERS OF A FARMER NATION

## The old and new Pellervo membership

**T**he balance of power changed in the Pellervo movement when nationwide political developments began to be reflected in the cooperatives. The Old Finn element of the Finnish Party lost support while the Agrarian Union correspondingly grew stronger. In newly independent Finland, the Finnish Party began to take on a more conservative role and its former democratic principles began to be increasingly replaced with status quo policies. The Old Finnish party's agenda of economic and social policies was given a more liberalist and right-wing trend, and it began to listen to the needs of trade and industry, and retreat from its social-reformist legacy. The party renamed itself Kansallinen kokoomus (National Coalition Party or Conservative) and the cooperative movement began to lose importance in its agenda. The party's agricultural experts were dismayed to see how the Agrarian Union gained a monopoly on issues related to farming and agriculture. The Pellervo members of the National Coalition therefore tried to struggle on behalf of the rural population against the party's business elements.

The Pellervo movement clearly began to be identified with the Agrarian Union. Under the grand duchy the Agrarian Union's activities in the cooperatives had mainly been at the local level. The

changing of the guard in Pellervo took place in the 1920s, when Agrarian Unionists were elected to the posts of chairman of the council of representatives and managing director. The party also reinforced its position when the Society's by-laws were revised. The same happened in the central societies. The farmers began to rise from among the rank and file to head their own organisations. The leaders of the Agrarian Union also became interested in the cooperatives as a political factor.

The love-hate relationship between the Old Finn leaders who had founded the cooperatives and the Agrarian Unionists gained passionate forms. For right-wing Conservatives, the Agrarian Union represented bigotry and incompetence. It felt that with its campaign for democracy the Agrarian Union had launched a class struggle against the educated elements of society. Republican agitation was turning the farmers and the Agrarian Unionists into an anti-government "anarchist mob of Bolsheviks" just as bad as the socialists. The old Finn leaders of the Pellervo Society were monarchists. They suspected that a Finnish king would be guided by the industrialists and the bankers, but if "the nation cries out for a dictator", what else could be done. This position also dictated the policy of the magazine Pellervo, which the farmers felt expressed the unashamed political manoeuvring of the Society. The Agrarian Union felt that it had fought in the Civil War for the cause of legality against anarchy, and it now wished to engage in cooperation within the

# PELLERVO AND ITS INTEREST GROUPS



The Pellervo Society played a decisive role in the establishment of cooperative enterprises and helping them overcome their early difficulties. The Society's head office in central Helsinki,

completed in 1921, is located in a building jointly owned by a number of agricultural and cooperative organisations.

The early membership card revealed the Society's strong ties with the farming population.



In honour of its 50th year in 1949, the Society organised a more than one thousand kilometre relay race to carry the proclamation of cooperation throughout the country. Carried by runners and cyclists, the message was read in public at each stop.





After the second world war there was no call for the original social and economic reformist role of the Pellervo Society. MTK even considered its abolition. In the 1990s, however, Pellervo again assumed an active and independent role. The Society's extensive interest group activities now play a vital part in helping Pellervo enterprises and others adjust to international competition. Interest group events are held each week during summer at the Society's Fridthem country house on an island outside Helsinki.



International relations, especially with the other Nordic countries, is an essential part of the Pellervo Society's activities. Nordic cooperative managing directors visiting Cerealia's Kungsörnen's pasta plant in Sweden. From left to right: Torbjörn Sandberg (LRF, Sweden), Holger Hasle Nielsen (Federation of Danish Cooperatives, FDC), Hans Wallenstein (LRF), Jan Brolund (Kungsörnen, plantmanager), Ole Waehre (Landbrukssamvirket, Norway), Samuli Skurnik (Pellervo, Finland).



framework of the state and prepare the rural population for political power while the cooperatives laid the basis for its economic power.

For the Agrarian Union, the Pellervo Society housed the enemies of democracy who had prevented the farmers from closing ranks politically and professionally, as well as within the cooperative movement. The ability of the Pellervo leadership to steer the farmers' movements was also questioned. For example, the dictatorial methods of OKO and its managing director Hannes Gebhard, were attacked for their inability to accept criticism and their desire to control the rural credit societies. The Agrarian Union wanted to democratise the management of the central societies. The party activists decided to reinforce their position within OKO and learn to utilise the producers' cooperatives in favour of the Agrarian Union. The Pellervo Society was criticised for being arrogant, but it was also understood that only by joining the Society in greater numbers and by responding to its call, could the local cooperatives and farmers wrench their movement from the hands of the "Helsinki clique". For the Agrarian Union, however, it became difficult to draw the line with the old non-socialist Finnish-minded parties, for they had also carried out a great deal of trailblazing work in favour of the rural population.

## From the gentry to the commoners

The 1920s saw growing debate about the lost authority of the Pellervo Society and its growing dependence on the central societies that had become involved in its administration. Cooperative educational and advisory work had been taken over by the central societies, whose power was seen by many as detrimental to the unity of the cooperative movement. The societies were cooperating less and less, and each was concentrating on its own objectives. The farmers now felt that they had to make sure that the central societies would not compete with each other. Therefore, the links between the local cooperatives and Pellervo were

to be reinforced and propaganda and advice were to be concentrated on a new basis. A new, strong Pellervo Society would lay down the guidelines for the cooperative movement and go on to lead it.

To the dismay of many, the Society's leadership felt that such an ideological concentration was no longer possible or sound. The various sectors of the cooperative movement had their special needs. Nor was it necessary to change the relations of power and authority at the Society's general annual meeting and among the central societies. The council of representatives, however, was given a more prominent role, which gave the rural membership and the Agrarian Union more authority within the Society. Demands for reform had mostly sprung from the Agrarian Union and its aversion of the gentry. These attitudes were fanned by the idea that only local cooperators understood the meaning of cooperatives working together. The problem, however, was the self-importance of the central society executives. There was also the assumption that the problems of a division of tasks among the central societies could be solved through agreements and that Pellervo could still give the orders.

During the years before the second world war, a large portion of the Pellervo leadership had a solid Agrarian Union background. A strong rural wave swept over the leadership of Hankkija, when the chairmanships went to farmers after a long line of noblemen and university professors. Valio's elected leadership had always come from the provinces. In 1930, they regained the leadership after a brief interval and the chairmanship went for the first time to a prominent figure in the Agrarian Union. The election of a farmer as chairman of SOK in 1934 underlined the fact that it, too, had become a rural movement. But farmers or Agrarian Unionists were still unable to gain the chairmanship of OKO.

## At the source of power

As authority in official rural policies was gained by the Agrarian Union it became important, in view

of the political influence of the Pellervo movement, that a similar change would take place in the Society. The Society's contacts with the government found a more solid basis in newly independent Finland. The state was generous towards the cooperatives, largely because the leading members of Pellervo included dozens of incumbent, former and future members of parliament, and most of the ministers of agriculture came from the Society. This was particularly important during the agricultural recession of the 1930s. A national agricultural policy based on self-sufficiency was drawn up, in which land reform, import duties, agricultural research and related advisory work, as well as inspection and improved credit were defined. The Pellervo movement supported this policy. The Society inspected, the credit societies financed, the Society and the central societies advised and the Valio laboratory researched. Cooperators were even called in as experts in drawing up foreign trade agreements.

The cooperatives and the state established a special relationship to promote farming and improve living conditions in the outlying and backward border regions within the framework of existing agricultural policies. The funds provided led to the founding of credit societies and other cooperatives in the border regions of Karelia. The most important consideration, however, was to develop financing and to consolidate the debts of farmers through the credit societies. The ideological motivation for this work was that an economically weak border zone would pose a threat to national independence, and that agricultural work was something positive whereas supplementary income for farmer households was largely negative. The work in the border regions expressed the increasingly prominent role of the farmer organisations as the vehicles of government agricultural policy. The activities of the farmer societies benefited the Pellervo Society. Various societies, associations and advisors all made the cooperatives known in the rural areas. Collaboration between the state and the credit societies deepened when the state became the main shareholder in OKO (1925) and representa-

tives of the Bank of Finland, the Ministry of Finance and the Ministry of Agriculture were elected to its board. In carrying through the land reforms, the credit societies helped the settlement authorities.

Official efforts to relieve economic distress at the end of the 1920s involved the Pellervo Society in many ways. The Director General of the State Agricultural Board and the managing director of the Pellervo Society in fact wrote the official report of the Distress Committee. The report recommended various ways of diversifying agricultural production, including state subsidies for grain and livestock sales cooperatives. The Society increasingly took on the role of an interest organisation in a situation of growing subsidies. It felt, for example, that subsidy quotas should not go to private companies but only to the farmers' cooperatives. It was able to campaign successfully for the ministers of agriculture were, as usual, members of Pellervo. The state gave significant financial support to the cooperatives, and in return, Pellervo advised and inspected them. In 1932, the Society also founded PSM, the first market research institute in Finland (nowadays Food and Farm Facts Ltd, jointly owned with Finnish Gallup Ltd). Export subsidies also began to be paid for agricultural produce and the credit societies compensated for any exchange losses they incurred. The Society felt that state aid was not wasted, for it revived the cooperatives and helped the poorer farmers in the outlying regions.

## From a rural spirit to a producer ideology

During its first decades the Agrarian Union was a socially radical reform party. It wished to be more than a political party or interest organisation for agricultural producers. It was a popular political movement, a popular educational movement and a movement for the defence of the Finnish countryside, working towards its goals in collaboration with the rural youth and temperance associations and the Pellervo cooperative

movement. Like the eastern European agrarian parties, the Union showed more interest in improving the social and political status of its supporters than in their role as producers. When the conflict between an emphasis on values and political reform and a true producer ideology emerged in the mid-1920s, the latter struggled for dominance. It raised the amount of state funding for agriculture and sought to defend the class interests of farmers in collaboration with MTK.

The Pellervo Society still saw the rural settlement issue as more political than economic, thus it did not approve of restrictions on settlement even at the risk of over production. The conflict between a communal-reformist ideology and an economic producer-oriented way of thinking began to emerge even in the Pellervo movement during the 1930s. The reformism of cooperation had come to the fore, for example, as a trend for levelling economic differences and raising the level of agriculture and incomes in the developing areas to that of the old settled regions. But a focus on economic key figures could not be the main concern of the cooperatives and neither should it divide the movement into groups competing over money. If the Agrarian Union was, in fact, more than just a party, the cooperatives were more than just a business. They, too, were a reform movement.

The dissolution of the livestock sales cooperatives in the 1930s almost shattered the Pellervo ideal. The cooperative slaughterhouses, which had previously been unsuccessful, now improved their operations. LSO (Southwest Finnish Cooperative Slaughterhouse) decided to leave Karjakunta now that it had come under the control of the cooperative societies, because it felt that retailers should not dominate a producers' business. LSO underlined the contradiction between producers and consumers and the rights of meat producers in areas of surplus production. It was soon followed by the other regional cooperative slaughterhouses, which established a new central society, TLK. Pellervo and Karjakunta felt that even retail cooperative societies were agricultural producers' cooperatives and that their

members were also producers. The Society's ideal was a nationwide cooperative movement. Separate economic interests among factions were a threat to a movement intended to bring the income opportunities of rural producers to a common level. Especially in the poorer regions of eastern Finland nationwide cooperation was regarded as furthering equality. In the regions that, for production reasons could not organise livestock trading into special cooperatives, the collection of products by the cooperative societies was greatly appreciated. LSO, on the other hand, had no wish to make ideological concessions.

The reorganisation of the agricultural produce trade into specialised cooperatives instead of cooperative societies was a sensitive issue for Pellervo as MTK had taken a different position. Instead of approaching Pellervo, the major producers were now appealing more to the producer-oriented MTK, of whose aims many smallholders and Pellervo leaders were suspicious. Karjakunta was important to Pellervo, not only because it wished to remain neutral, but also because the produce trade was mainly organised through the cooperative societies.

It was disconcerting to note that the cattle dispute bared an unprotected flank to its opponents. The issue was even raised in parliament and the Pellervo Society feared that the socialists would use it to spread discord within the Pellervo movement and attack SOK which competed with their own progressive cooperative movement. The socialists in fact tried to do so by campaigning in parliament for a stipulation to the Pellervo advisory appropriation whereby support would favour the cooperative slaughterhouses and not go to the cooperative societies (Karjakunta). The Society wished to settle the dispute in order to enter into negotiations with the progressive cooperatives. The discord in its own camp and the development of cooperatives into large-scale businesses made the Pellervo movement underscore the importance of internal strength and the ideological aspects of cooperation alongside economic considerations.

The interwar years were a time of fierce ideological battles between the cooperatives and private enterprise. The private sector accused the cooperatives of furthering socialism, and the cooperatives accused private shopkeepers of enslaving workers and consumers.



## National unification and the private business offensive

National unity had increasingly become the concern of the centre of the political spectrum. The Agrarian Union took a positive view of the moderate labour movement, as it considered that farmers and workers belonged to the same class, the ordinary Finnish people. At government level, the idea of national unity and the examples of other Nordic countries gradually laid the basis in the late 1930s for political cooperation between the Agrarians and the Social Democrats. This cooperation also had its problems, one of which

was the dispute over surplus agricultural produce. Moreover, the two cooperative movements were controlled respectively by workers and farmers. Even when they rejected party politics the cooperatives constituted a political movement for improving the incomes and influence of the ordinary people. Did the political consensus of the period find its reflection in the relations between the different branches of the cooperative movement?

A certain easing of relations was shown by the fact that socialists active in tenant issues were accepted into the executive bodies of the local credit societies. The political solution to the



crofter and tenant issue came to be seen as a joint national effort. Criticism from the private business sector also brought the two branches of the cooperative movement closer to each other to safeguard their common interests. On the other hand, relations between producers and consumers were strained by the economic recession, over production and increasing competition between the two cooperative movements in retailing and the collection and processing of agricultural produce. It was only the Great Depression and the Winter War of 1939–40 that postponed OTK's plans for the meat processing and dairy sectors and the direct collection of produce from the farmers. The Pellervo movement feared that the consumer cooperatives would try to exert a political influence over the rural population. No division of labour was achieved in the acquisition and distribution of farm produce, for there was no desire even to include the progressives in Pellervo's internal agreements on the respective functions of the cooperative societies and the processing cooperatives. In principle, however, Pellervo wished to avoid unduly strained relations between producers and consumers.

Many businessmen, cooperative competitors and sceptics, found it difficult to accept such things as tax benefits for the cooperatives, state loans to producer cooperatives, export quotas on farm produce, allowances and the right of retail cooperative societies to operate savings funds. These points were continually taken up by the right-wing parties, the Central Chamber of Commerce, meetings of trade and industrial circles and businessmen, as well as the Finnish League of Private Entrepreneurs, founded in 1933 to oppose both socialism and the cooperatives.

The savings banks had found a serious competitor in the early 1920s, when the cooperative credit societies began to accept deposits from the public. The credit societies criticised the savings banks for investing deposit funds in the cities and for their oligarchic administration. The savings banks pointed out that in the credit societies potential borrowers were jointly responsible for the

society's debts in addition to paying dues and subscribing to Pellervo. The savings banks were managed locally, while the credit societies were under the control of OKO, their main creditor. The Society took part in the propaganda war between the banks, but many felt that there was no reason to attack another institution operating for the public good. Local cooperators were active in both the savings banks and the credit societies.

In parliament, a number of right-wing members complained that left-wing cooperative activists were using the cooperatives to build a socialist society, something the socialists readily admitted. The nationalisation of production and the replacement of the market economy had become increasingly prominent features of the progressive consumer cooperative rhetoric. But the Pellervo movement was also tainted and it had no desire to be branded as paving the way for Bolshevism. SOK reacted strongly to remarks by the Central Chamber of Commerce linking the name of Lenin with the cooperatives. The Confederation of Finnish Industry, on the other hand, had warned against aggravating the cooperatives, as they were the best clients of many of its members. It had invested a great deal of effort in establishing contacts with the Agrarian Union and MTK, and was pleased with the growing understanding between agriculture and industry.

When businessmen claimed that the cooperatives aimed at destroying private enterprise and sound economic development, Pellervo pointed out that this scenario was completely mistaken. The Society was also concerned that many influential members had turned their backs on the cooperatives and no longer regarded them as a patriotic movement working for the advancement of the common people. Before the parliamentary elections the Society, which had always underlined its politically neutral position, now urged cooperators to elect friends of the cooperative movement. The elections of the 1930s were regarded as important not only for the precariously balanced Finnish democracy but also because of growing opposition to the cooperatives in trade and industry. On the other hand,

the reactions of opponents were regarded as indications of an improving economy. The attacks of entrepreneurs were often taken as signs of cooperative success.

This defensive position made the Society stress its ideological links with the critics, and to emphasise the importance of cooperation in developing individual initiative and morality. It felt that cooperation would also reinforce a society based on private property and freedom of occupation, whereas the progressives claimed that they were defending the consumer against industrial capital and private traders. The Pellervo movement considered itself a bulwark against the proletarian revolution, and accused the critics of producer cooperation of fomenting national discord. The role of the cooperatives was based on its usefulness in raising the general level of prosperity and social security, and in the patriotic principles of cooperation itself. Nationalism and the cooperative movement both emphasised solidarity, a collective spirit and joint responsibility, with self-determination and sovereignty as goals. As a popular movement the cooperatives solidified and unified the nation.

## The cooperatives learn to adjust

The new economic and social agenda "The Third Way" adopted by the Agrarian Union in the early 1920s was based on the idea of the good state and an aversion of unbridled capitalism on the one hand and socialism on the other. Cooperation was the core element in this programme. Developing it would help put capital, and the economic and political power it generates, into the hands of the people. The emergence of peasant values in the Finland of the 1920s and 30s was made possible by democracy and the twin pressures of socialism and industrialisation. Through the cooperatives, the farmers wanted to ensure both their economic position and their lifestyle and values. They shared

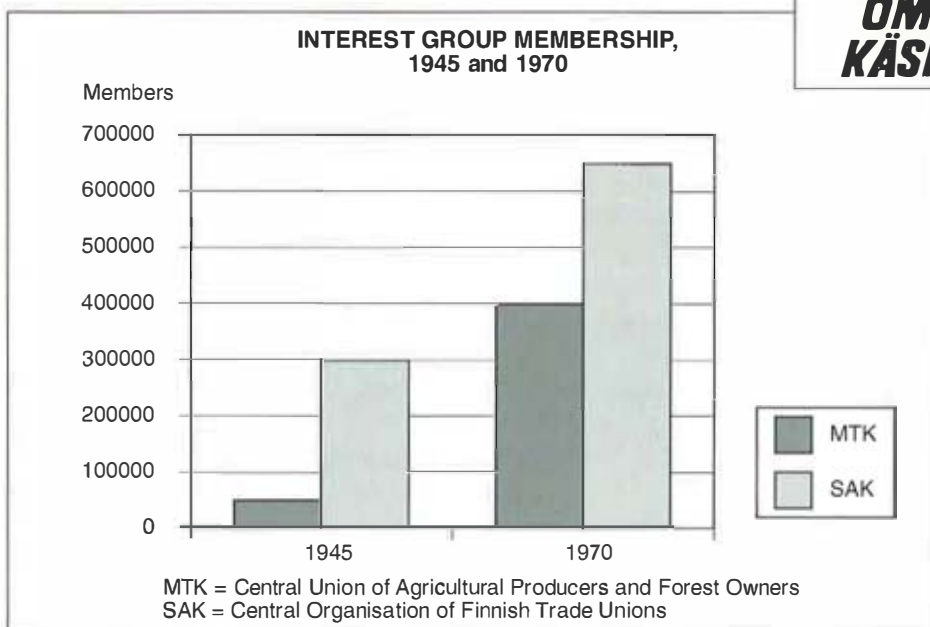
with the ideology of the market economy a belief in private enterprise and property, and with socialism the principles of community and collective responsibility.

After Finland became independent, there began to appear increasingly moderate evaluations of the ability of the cooperatives to chart a completely new course for society. Opposition to socialism, hatred of businessmen and the success of the cooperatives led to a situation in which revolutionary visions increasingly changed into support for political stability and private enterprise. The Agrarian Union's 1932 agenda also reflected identification with the prevailing economic order. Its cooperative tendency still remained, but there was no longer any mention of a new economic order and the programme's anti-capitalist stand was watered down. In the 1930s, the "full-scale cooperative" system implied cooperative socialism, even for the friends of the movement. This was something mentioned only by cooperative idealists and opponents of the movement. The concept of a society partially based on cooperation, spread as the non-socialist cooperatives adopted a more conservative attitude. The purpose of cooperation was not to undermine the basis of capitalism but to complement it.

The idea that cooperation constituted an independent economic system was, however, still widespread, and many people regarded the differences with private enterprise as only minor. It was said in defence of the cooperatives that the market economy should not only allow private ownership but also processes by which as many citizens as possible could become owners. It was generally felt that the two alternative systems competed within the existing economic order, both of which had a revolutionary full-scale agenda. There were many who did not oppose the cooperatives as a complementary element, but were nevertheless against a full-scale cooperative system.

# INTEREST GROUP POLITICS IN FINLAND

The predominant issues of concern to society as to the cooperatives in the immediate postwar decades were income redistribution and relations with the Soviet Union. The rural population and urban wage earners formed two opposing groups whose interests were cared for by MTK and SAK. MTK strengthened the farmers' sense of solidarity through the slogan "Keep the reins in your own hands".



Veikko Ihamuotila, chairman of MTK 1955–75, was one of the most influential people in postwar Finland. Under his leadership agricultural producers' prices were linked to incomes policy. He had an amazing network of personal contacts, especially with politicians, the most important being his friendship with President Urho Kekkonen. Relations between MTK and the Pellervo Society were deepened with Ihamuotila's election as chairman of the Society's council of representatives. Such was his authority that he was consulted by members of the Pellervo family in all matters of importance.

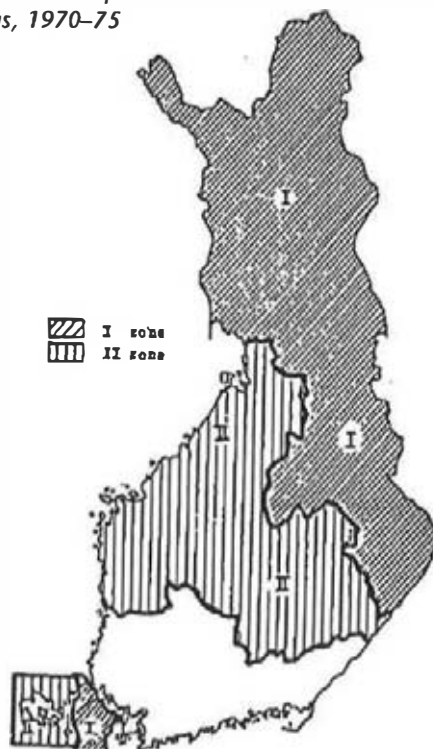


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Pellervo's close links to MTK increased its commitment to the farmers and to their political spokesman, the Agrarian Union – Centre Party. Ministers were often chosen from among cooperative leaders. For Pellervo enterprises, this political collaboration was highly significant. Two of the main proponents of consensus were Kalevi Sorsa, long-time chairman of the Social Democratic Party, and Johannes Virolainen of the Centre Party.

One of the early objectives of the cooperative movement was regional equality, that each part of the country should enjoy equally good conditions. This became one of the cornerstones of regional policy in postwar Finland. The first Development Zone Laws were passed in 1966 and they have been constantly revised ever since.

*Finnish development areas, 1970–75*



*The international evaluation conference of Finnish regional policy, 1991*



# COOPERATION, COMBAT ORGANISATION AND PARTY POLITICS

## Conservative elements in society

Most of Finland's rural population felt the years after the second world war and the rise of the political Left posed a threat. The Agrarian Union presented itself as a bulwark against the Left but it also drew a line with regard to the political Right. Competition over the support of the poor farmers forced the Union to move left ideologically. Having approached the Pellervo Society in many respects, the party now radicalised its programme in an anti-capitalist and socially oriented direction with the objective of improving the lot of the common people, as opposed to the agricultural-producer orientation of the 1920s. The agenda's theory of a third way was based on small-scale production, improvements in the position of smallholders, opposition to collectivism and a planned economy, and criticism of the ruthless aspects of capitalism.

For example, Valio and the cooperative dairies felt that they were engaged not only in business but also in an effort to promote the undeveloped areas of the countryside, the rural poor and the nation in general. The cooperatives worked to strengthen the foundation of society as a whole, and so they were even prepared to operate at a loss in northern Finland. The Pellervo Society also sought to distance the rural poor from political radicalism. In combating the left-wing threat, the Society was prepared to cooperate with other non-socialist organisations and institutions. It

sought, to the best of its ability, to inform private entrepreneurs of the differences between cooperation and collectivisation. The cooperatives fought against the weaknesses of the capitalist system with its own weapon of free enterprise.

For the cooperative movement, the rise of the Left meant that the progressive cooperative competitor to the Pellervo movement now obtained stronger support. Competition between these two cooperative movements deepened as more and more smallholders joined the left-wing consumer cooperatives and more products were bought by the cooperatives directly from the producers. During the post-war years, a "dairy war" broke out in which the consumer cooperatives sought control of the dairies, and with their policy of selling "directly from producer to consumer" persuaded smallholders to reject the "reactionary" cooperative dairies and fight against monopolies. The Pellervo movement, in turn, sought to concentrate the producers and deliveries of milk in Valio. The Society criticised the actions of OTK, and those farmers, who no longer saw any difference between them, thought it perfectly natural to deliver milk to the latter.

## MTK and the Agrarian Union covet the cooperatives

The non-socialist country people and their representatives set out to build a popular stronghold against the left-wing parties and the trade union

movement. This process began in MTK, which changed from an organisation of experts into a mass movement. Despite personal connections and contacts, the Agrarian Union and the Pellervo Society had had reservations about the producers' organisation and its "class agrarianism". Concentrated in the rich rural regions of south and west Finland and identified with the Conservatives, this association of large agricultural producers had remained slightly alien to both. Things changed when smallholders joined the MTK after the war and it developed closer relations with the Agrarian Union and the Pellervo movement. The closing of the ranks of the producers sprang from a desire to reinforce patriotic elements and to safeguard the interests of the farmers.

The fervent political atmosphere of the post-war years and the debates on income redistribution called for mass organisations for safeguarding the interests of specific groups. This tendency strengthened MTK's influence over the Pellervo Society as the farmers' lobby was a combat organisation whereas Pellervo was not. Similar threatening scenarios, however, brought these organisations together. They felt that both the large farmers and the smallholders should be persuaded to join MTK and the cooperatives. MTK was taking a growing interest in solving the problems of agricultural cooperatives, but the price of its help was that Pellervo would back the cooperative slaughterhouses in the meat dispute. It felt that overlapping operations were a waste of economic resources and a veritable Achilles' heel in any competition with OTK. The farmers had to organise themselves in the same way as the workers and industry, in order to increase their political influence. The Society's council of representatives adopted a pro-cooperative slaughterhouse position, although some of the members were strongly opposed to it. This decision, which was against the interests of Karjakunta and the retail cooperative societies, was regarded as undermining the farmers' united front and the political neutrality of the Society.

MTK needed strong agricultural cooperatives to support its work, and began to support them

by organising membership drives for the cooperative slaughterhouses and the new forest owners cooperative Metsäliitto (1947). It also lent its weight to Valio and the concentration of the dairies. MTK regarded the coexistence of producers and consumers in the cooperative societies as positive, but owing to this coexistence the societies could not approve the pricing policies of the producers. Therefore, the agricultural producers had to obtain support from marketing organisations, which they owned themselves.

Seeking to obtain at least the level of organised power that the wage earners already had, MTK did not exclude such actions as supply strikes. The supply strike associated with the general strike of 1956 crystallised MTK's readiness for more radical action than the Society. Despite collaboration in support of the cooperatives there were still differences between MTK's thinking and Pellervo's ideology, for the Society did not unequivocally approve of turning the cooperatives into an economic weapon against the trade union movement. It felt that, instead of applying pressure, the members of the cooperatives should be made to understand their own interests voluntarily through ideological education and without sanctions. Neither did the Society wish to give preference to one farmers' cooperative over another.

Because the cooperatives and the Agrarian Union partly fought for the same goals in the regulated post-war economy, it was only natural for the party to become interested in the Pellervo movement. Cooperation was democratic, small-scale enterprise, and in the post-war context it was regarded as an important factor in promoting national unity and political stability. By organising the radically prone smallholders into cooperatives it was possible to combat revolutionary tendencies. Towards the close of the 1940s the Agrarian Union began to actively debate its relationship with MTK and the Pellervo movement. The party chairman felt that the nation's farmers should be organised into a broad front with professional, economic and political overtones. The party activists were to collaborate

with economic, educational, professional and cooperative organisations in the countryside in order to gain control over them. The Society still maintained its apolitical role, and even before elections its advisors refrained from interfering in politics. They urged people to vote, but when necessary steered the rural debate into other areas. It was still felt that work in the non-political field would bear fruit.

Many subscribed to the absolute principle of keeping party politics out of the cooperative movement. Especially in SOK there were attempts to reject political affiliation (with the Agrarian Union), since Conservative members enjoyed a stronger position than in the producer societies. The emergence of party politics in various forms could not be completely avoided, and before elections, "vote beggars" would begin to visit the cooperative dairies. When executives were appointed to the central societies the opinions of MTK, the Pellervo Society and even the Agrarian Union – now renamed the Centre Party – were invited, even though they may not have influenced the actual choices. Appointments in the central societies were to be made on non-political grounds, but it was felt that policies were too lax in this respect. Party-political discrimination was practised in some localities, but some of the societies made it clear that the leadership of the movement needed farmers with different political affiliations.

The agricultural cooperatives involved persons active in the Conservative and far right parties. In order to secure their positions and find executive roles in cooperative organisations, some of them joined the Agrarian Union after the war. Some Conservatives felt this to be a period of discrimination. As the membership of the agricultural organisations grew and the smallholders began to predominate, the Conservatives were increasingly pushed aside from the centre of power. In many cases non-socialists of other parties were invited to participate in the agricultural organisations. It was also hoped that, in the name of farmer and cooperative unity, the council of the Pellervo Society would include a large number of Conservatives.

In electing its managing director in the mid-1940s, the Pellervo Society had to decide between a probable name of the future and a "man of the past". The Society was also given the opportunity to channel much more grass-roots level (Agrarian Union) opinion into the often highly right-wing management of the central societies. A memorandum of the Society's organisation committee proposed changing the role of the Pellervo Society from the servant of the central societies to their master. The Society had even expressed its opinion concerning the election of managing directors to the central societies. Its council was to express the will of the farmers and not the commercial experts. But when these reforms were rejected, MTK gained time to seek the same position that the committee had outlined for the Society. The committee's chairman lost the contest for the post of managing director of the Society, but only a few months later he was elected chairman of the Agrarian Union. Changes in the role of the Society may have marked a closer commitment to the farmers' party instead of its hitherto dependence on the central societies. From now on, there was a growing dependency on MTK. A joint leadership consisting of the managing directors of the central societies and the elected MTK representatives became established in the Pellervo Society.

Many of the Pellervo executives had exceedingly poor relations with Urho Kekkonen, who became the Agrarian Union's most important figure and in 1956 president of Finland. The producer-oriented Pellervo farmers on the right wing of the Agrarian Party already opposed Kekkonen and his new foreign policy line when he was prime minister in the early 1950s. Although the Pellervo movement encompassed a wide range of political opinions, it still had the image of a "nest of old fogies". There were also staunch anti-Communists among the executives of the central societies, who opposed the nation's new foreign policies vis-à-vis the Soviet Union and even regarded Kekkonen a communist. Owing to the close relations between the Agrarian Union and the producer cooperatives, this was a somewhat sensitive issue.

## THE PRESIDENTS AND PELLERVO



President of the Republic Martti Ahtisaari (left) with Pellervo chairman Heikki Haavisto at the Pellervo Society's AGM in 1996.



J. K. Paasikivi



Kyösti Kallio

President J.K. Paasikivi was one of the founders of the Finnish cooperative movement. He was a friend of Hannes Gebhard and a colleague in the Finnish Party. Paasikivi wrote the preface to the 1901 Cooperative Societies Act as well as a pamphlet explaining the law. As secretary of the Pellervo Society (1901–1903) he advised cooperatives on juridical questions and wrote about them in the Society's publications. Later he became prime minister and president of the republic (1946–1956). Cooperation has been much advanced through the actions of Paasikivi and numerous other political figures. Many other Finnish presidents have been associated in one way or another with the cooperative movement. Although independent Finland's first president, K.J. Ståhlberg (1919–1925), was not active in the movement, he was a personal friend of Hannes Gebhard. Early in his career, Lauri Kristian Relander (1925–1931) was a branch manager in Hankkija and afterwards was manager

of the Pellervo-sympathetic Fire Insurance Society. P.E. Svinhufvud (1931–1937) and C.G.E. Mannerheim (1944–1946) had no background in the cooperative movement, but Kyösti Kallio (1937–1940) became symbol of farmers and Pellervoism in Finland. Thanks to his rural background as a local cooperative society and farmers' association official, he was elected to parliament and appointed a minister. His successor Risto Ryti (1940–1944) was an OKO bank manager before moving to the Bank of Finland. Urho Kekkonen (1956–1982) was connected to the movement via MTK and the Centre Party. Mauno Koivisto (1982–1994) had for long served as an elected official in the workers' cooperative movement. Although Matti Ahtisaari (1994–) made his career in the international arena, he was earlier a member of the supervisory board of the Greater Helsinki Cooperative Bank.



Although in the 1960s President Kekkonen, as the nation's leader in developing relations with the Soviet Union, was also a key figure in the food industry's eastern export drive and a supporter of subsidies for agriculture, he had never been associated with the Pellervo movement. The best lobbyist for the cause of the central societies with regard to Kekkonen was Veikko Ihmuotila, chairman of MTK and later chairman of the council of representatives of the Pellervo Society. By the 1970s the Pellervo movement began to include growing numbers of supporters of the ageing president thanks to political consensus and successful agricultural exports to the Soviet Union. The name of Kekkonen, who had achieved an exceptionally powerful position, was used in all sectors of Finnish political life and society, as well as the Pellervo Society. For example, OKO bank suffered a severe crisis in the 1960s after having financed a poorly planned venture by a personal friend of the president. Many of the bank's executives had expected the state to guarantee the loans.

When President Kekkonen resigned in the autumn of 1981, a political campaign was mounted to gather support for the candidature of Dr Ahti Karjalainen, Kekkonen's "crown prince" and Finnish-Soviet trade expert. Continued Soviet trade was important for the central societies. The Centre Party held several meetings with MTK and Pellervo leaders to obtain their explicit support for the party's nominee. The same was attempted by ministerial counsellor Viktor Vladimirov, a diplomat with the Soviet Embassy in Helsinki, who underlined continuity in Finnish-Soviet relations and cited the successful eastern export efforts of the central societies during Kekkonen's time. These meetings, however, came to nothing as the cooperative movement did not wish to commit itself to party politics, but also because there was support for the Centre Party's other presidential candidate. The executives of TLK and Valio, companies very dependent on trade with the Soviet Union, showed greater understanding towards the objectives of the inner circle of the Centre Party. The relations of these executives with the leading Centrists and Vladimirov had

become valuable political capital. TLK was particularly skilled at managing its eastern exports via the Soviet Embassy in Helsinki. The presidential candidacy, however, went to Dr Johannes Virolainen, a veteran politician who was also a farmer, a representative of the cooperative slaughterhouses and banks, as well as the choice of the Centre Party's rank and file.

## The state and cooperation

The official settlement policies of the 1940s and 50s carried on the old line of dispelling political tension. During the following decade, the restructuring of Finnish agriculture began. Official regional policies were launched when the existing structure of settlement in Finland began to break down as a result of mass migration into the towns and cities. The late 1960s favoured the Social Democrats, who sought to restrict surplus agricultural production. For the generation that cleared its own fields and the politicians responsible for post-war resettlement, this new course was a difficult one to accept. One reaction to these developments was a rural protest movement that was also felt in the cooperative societies. This new party of smallholders criticised the producer organisations and cooperatives at society meetings and in parliament.

During the post-war "second republic" the cooperatives and the state became increasingly intermingled. The cooperative societies had both the old and new tasks of "aiding the state", as for example in distributing price subsidies and in granting settlement loans. Cooperators became legislators and government ministers. The emergence of a regulated, consensus-based society was in marked contrast to conditions under the "first republic". In a "genuine" market economy, the roles of the Pellervo Society, the central societies and MTK had been in some kind of balance, in much the same way as the Conservatives and Agrarian Union were. The 1930s were years of transition, prior to which the cooperatives and the indirect action of the state

had made it possible to solve the main economic problems of the smallholders. The decades that followed were the period of a strong MTK and a system of state subsidies for agriculture.

Already during the war, the central societies had supplied the army and the home front, and central society executives had been appointed to the Ministry of Supply. The credit societies achieved their close symbiosis with the state, and they were largely responsible for the distribution of settlement loans from state funds. During the post-war years state funding for the resettlement of Karelians was carried out almost solely via the local credit societies, which became the bank for evacuees and demobilised servicemen. Agricultural policies had marked social overtones. The state milk transport subsidies meant that cooperative dairies could collect milk from even the most outlying farms. Cooperation thus played an important role in the wartime economy, reconstruction and resettlement. Therefore, the fundamental restructuring of Finnish society during the 1960s and 70s did not greatly concern the cooperatives.

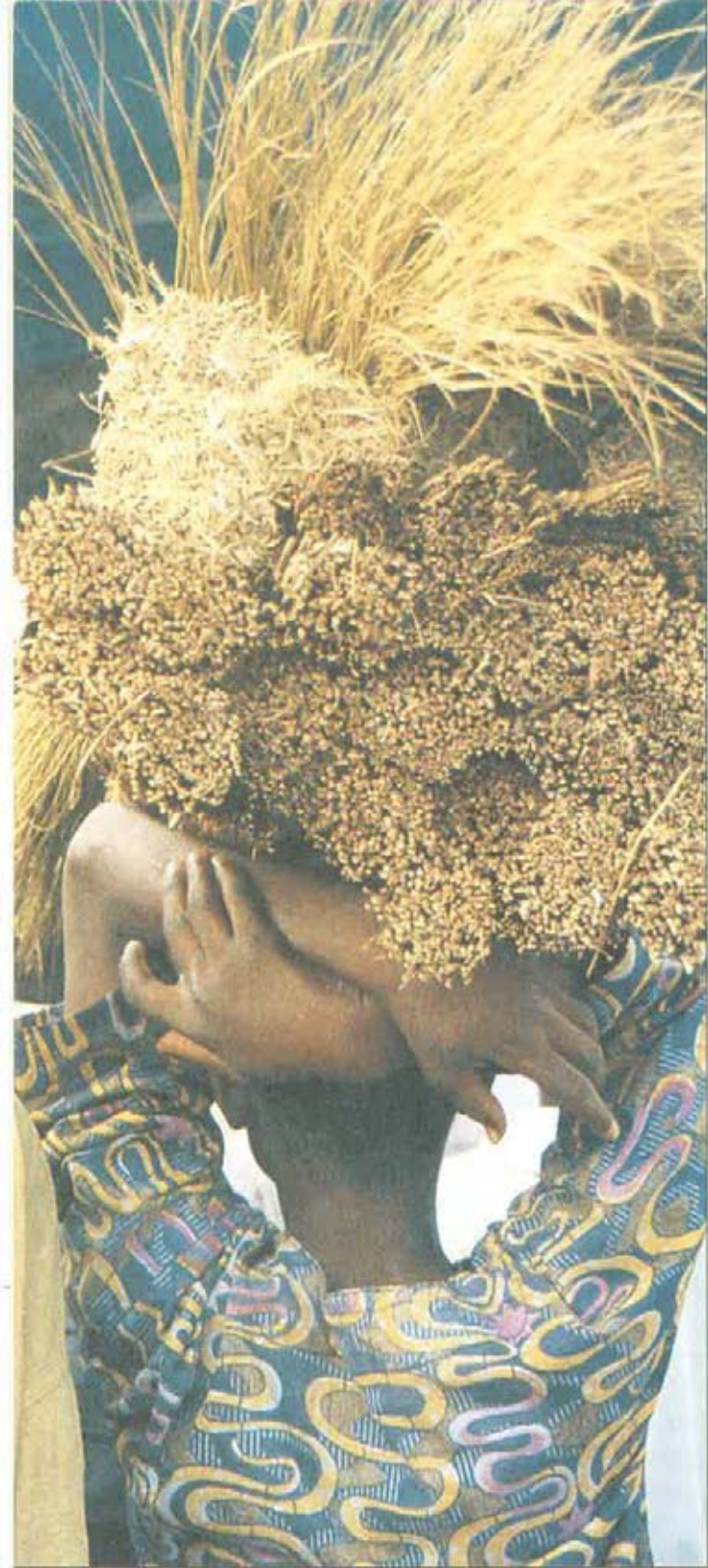
During the post-war decades the Pellervo movement enjoyed the support of the farmers' lobby MTK and the leading role of the Centre Party in government. Leading politicians were also well placed in the cooperative movement. The top figures in positions of trust in OKO in the 1960s and 70s, in particular, were prominent ministers and MPs. Like MTK, the Centre Party was also interested in the leadership of the Society and its appointments. Although the political parties were important channels of influence for both the Pellervo and the progressive movements, and both had their own men occupying important posts, Pellervo never declared itself ideologically in the same way as its competitor. Despite their closeness, its ties to the Centre Party remained looser than the progressive cooperatives' to the labour movement. At least in principle, the agricultural cooperatives avoided party-political identification. In the early years, the political base of the movement had been broad, despite the predominance of the Old Finn party. Moreover, growing numbers of townspeople had joined the

movement through the cooperative societies and banks.

During the years of left-wing radicalism in the 1970s the Pellervo Society stood up for private property and enterprise. The Society joined EVA, the Centre for Finnish Business and Policy Studies, which had been established to promote positive attitudes towards the business community in the midst of an anti-business atmosphere. Many on the political left and centre regarded EVA as an anti-Soviet organisation maintained by right-wing elements. This was how the cooperatives viewed the private sector and it was difficult for them to forget their old prejudices. For example, Metsäliitto was regarded as an MTK-based guardian of farmer interests and as a strange Finnish-speaking upstart in the otherwise largely Swedish-speaking dominated forest industry. Pellervo felt that keeping the increasingly producer-alienated SOK within the Society was both economically and politically significant as it helped "preserve the political status quo". The presence of the cooperative societies pacified relations with the retail trade and consumers, and maintained the united front of farmers and the whole non-socialist sector of society.

Although the leading government parties, the Centre Party and the Social Democrats, disputed the issue of agricultural subsidies, a consensus on agricultural policy emerged during the 1970s. The Centre-Social Democrat axis allowed for agreement on basic policies and specific politically tinged projects. Both parties had their own cooperative strongholds. These they could reinforce by mutual agreement and so bring about a state of peaceful coexistence between the two cooperative movements. The progressives' central union KK gradually lost its role as a consumers' pressure group when the workers' parties assumed responsibility for government. Moreover, OTK and its member societies began to downsize their food industry.

The cooperative societies had always had close links with regional objectives. Since the outset they were expected to level not only social but also regional differences. The movement played a



Food security is the foundation of a stable society. Most food in Africa is grown by women, so special emphasis needs to be given to make their work load easier.



## The Finnish cooperatives in development

### *From the local to the global*

While cooperatives – controlled by their members – are essentially local institutions, their members have always understood the importance of international cooperation. After having actively followed the independence struggle of colonies, especially in Africa, the Finnish cooperative movement was one of the first to step in to offer its support to the movements of the emerging nations. Together with the other Nordic countries and the backing of development funds, ambitious cooperative programmes were initiated in Tanzania and Kenya soon after they became independent in the 1960s. The programmes, which provided technical assistance in cooperative management, marketing, accounting, member education, savings and credit, proved successful and inspired other projects in other countries. The Nordic project had a lasting impact on the development of cooperative businesses in East Africa. At the same time, it opened up an opportunity for young professionals in the Finnish cooperative movement to face international challenges, which resulted in long-term cooperation between business organisations such as cooperative banks in Finland and Africa.

Encouraged by these experiences, the cooperative apex organisations founded the Finnish Cooperative Development Centre FCC in 1990 to coordinate activities in development cooperation. It was designed to be a forum for the fruitful exchange of information and experience, and for the development and testing of new ideas. The FCC encourages its members to actively participate in development cooperation and offers opportunities for personnel to work in international projects. However, it has to be stressed that





cooperation is a two-way flow; it is always a process of sharing and learning from each other for the mutual benefit of all concerned.

Since the early days projects have moved into new areas. The development of technology, the liberalisation of national economies and the globalisation of markets pose ever greater challenges. Questions such as gender equality, environment care, empowerment and participation of people are inherent in today's development cooperation just as they are in our own society. The need for cooperation and understanding between nations and individuals in an increasingly inter-dependent world is greater than ever.

Values are the cornerstones of the cooperative movement as well as the building blocks of successful development cooperation. The aim of the FCC is to support the people in our partner countries, especially in the rural areas, in their own efforts to improve their living conditions through socially, ecologically and economically sound development projects. We offer professional consultancy and information services in the planning and implementation of cooperative and rural develop-

In FCC projects planning starts at the farms and villages. The participatory planning process itself serves the members of the community as a forum for learning new skills and gaining self-esteem.



ment projects. Our clients are international donor agencies and NGOs, and we work in partnership with several consultant companies in the EU-countries. The FCC has been working in many countries in Africa, Asia, Latin America and Europe.

significant role in providing marketing contacts and distributing agricultural income. From a very early stage, Pellervo and Valio focused on support for economically backward regions, and even later Valio pursued a policy of developing northern Finland and the outlying areas of the country. The credit societies were instrumental in channelling state funds for implementing social policy, which in turn promoted the regional expansion of their network. By the post-war years, they gained importance in supporting the business community as a network of local banks financing different areas of business and operating in all municipalities. The prominent role of the provinces was clearly evident in cooperation among forest owners. Metsäliitto tried to ensure, for example, that the state and its industries would not gain too great a say over private forest owners in the north. The idea was to ensure a demand for wood from its members throughout the country, even if the regional needs of local paper and pulp mills could not always be met. Although Metsäliitto was a centralised and nationwide organisation, regional interests were taken into account through the local representatives. Regional and local considerations have never lost their importance in cooperation, politics or MTK. So long as the cooperatives paid the same price for produce collected from even the most distant farms, the inhabitation of the outlying villages and hamlets was guaranteed.

## The eyes and ears of MTK

MTK became the political backbone of the producers' cooperatives in the nationwide incomes and pricing agreements. For both the cooperative societies and MTK in particular, it was essential to have the right political contacts and good relations with those responsible for trade and agricultural policies. This network gave MTK added influence among the cooperatives. The much-respected chairman of the agricultural producers' organisation, Veikko Ihamuotila, who in 1956 was also elected

chairman of the council of the Pellervo Society, became a leading authority on agricultural cooperation.

MTK assumed Pellervo's former role of steering and developing the cooperatives. The last word was to be left to the producer organisation, which wished to develop the business structure of the cooperatives under the guidance of its chairman. MTK gave special support to the cooperative slaughterhouses and Hankkija in their battle with SOK as it did not regard the retail societies as true producer cooperatives. MTK's position was largely adopted as the line to be followed by the Pellervo Society. Karjakunta was expelled from the Society and SOK gradually became alienated. MTK, Hankkija and Pellervo were all networked through strong personal contacts. Valio's board of directors was mostly manned by persons in positions of trust in MTK, which also had close links with Metsäliitto. Both supported the stumpage price paid to the forest owners and MTK's chairmen held executive positions in Metsäliitto. These processes changed the nature of the Pellervo Society, which took as its core interest support for "genuine" producer cooperation, promoting growth, centralisation and company acquisitions.

Already in the 1960s there was talk of the death of the cooperative ideology. As the small communities broke up and the cooperatives expanded their fields of operation, there was a real risk of alienating the membership. In particular, the moving of service cooperatives into the urban conurbations changed the nature of agricultural cooperation. The cooperative bank organisation still had the image of a farmers' bank in the early 1960s, but it was already moving into the towns where its future clients lived. This movement was related to the Centre Party's efforts to gain a foothold in the towns and cities. The growth of the cooperative banks and their urbanisation changed the structure of their lending policies and their clientele. These were natural changes, but there were those who expressed concern about the new member groups and the flow of money

into the cities. The farmers still identified themselves with their cooperative societies. Shop closures and the regional mergers of cooperative societies were, however, sources of concern. But all in all the rural cooperatives of the 1960s and 70s still subscribed to a strong Pellervo spirit.

Changes in the membership of SOK and OKO prompted the question of whether the Pellervo Society and cooperation still had any joint goals. The problem was whether to make organisations like them toe the farmers' line or to let them go their own way. MTK was only interested in "thoroughbred" producer cooperation. During the 1970s, the significant decline in the importance of agriculture made MTK support closer ties with the Pellervo Society and even their possible merger in line with the Swedish LRF. As the state gained more influence over agricultural policy and the rural population diminished, the guarding of farmer interests was to involve a front that was as unified and strong as possible. MTK also desired to strengthen the role of the producer in the cooperatives. The fact that MTK also attended to the interests of the cooperative societies, but had no explicitly regulated connection with the enterprises, was regarded as a weakness within the organisation. Many in the Society regarded the division of functions as clear-cut: MTK was concerned with economic policy and Pellervo with industry and marketing. Concern was expressed over Pellervo enterprises being identified with MTK, their relations with the retail trade and the unity of the population. Many felt that the Society and the cooperative societies were a unifying factor for the members, something beyond the scope of the MTK.

## Cooperative ideals scrutinised

It appeared increasingly difficult to combine business operations with the social and political tenets of cooperation. The Pellervo Society took as its starting point the efficiency of the

cooperative societies in terms of business. The original concepts of cooperation, however, were not regarded as having been exhausted over the years; nor were the social aspects of cooperation in contradiction with efficiency and cost-effectiveness. It was only necessary to find new and contemporary means to safeguard the cooperatives' ability to compete. By dropping out of the race, the cooperative societies would also lose the opportunity to further their members' economic interests. Increasing emphasis was also placed on the problems and failings of operations. Outwardly, the cooperative movement appeared strong, but as apathy spread among the membership it was becoming more of a market-economy organisation than an ideological association.

Rapid changes in society, business efficiency demands and the challenge of competition had brought about a new approach, according to which the price paid to a member for raw materials was to fluctuate in proportion to the costs caused by that member to the cooperative. This was ignored, however, in the case of outlying small producers and where the principle of even pricing would be unfair to the cooperative. It had not always been profitable to obtain raw materials from the "back of beyond" for the same price, but many felt that it had been all the more important for preserving political stability. Solidarity in pricing kept even the smallest farmer in the united front.

But the competitive needs of the societies and the national economy appeared to call for policies for economic structures and growth comparable to the old rural settlement policies. The food industry needed good raw materials in growing amounts. In the early 1960s, the cooperative slaughterhouses followed the example of the cooperative dairies and began to enlarge their volumes of raw materials and to improve the quality of their products. Their so-called efficiency bonuses were sharply criticised as favouring large producers and contrary to the cooperative principle of equality. Fair treatment for all members spelt undeniable benefits for the cooperatives, but it entailed definite problems in terms of business.



# WHEN SAFEGUARDS FAIL

## In a market economy

**D**ebates in the 1980s concerning cooperative values and identity posed the question as whether time had left behind the core values of cooperation. The cooperative societies had adopted the same methods as their competitors, and the movement no longer represented old-time collaboration or the idea of members being responsible for their own destinies. Member influence had diminished in the growing cooperatives, particularly in the urban service cooperatives, where personal commitment was not so concrete an act as it was for farmers. It was thus difficult to maintain the collective basis of cooperation.

After the breakthrough, the number of members was the main measure of a cooperative's success. During the period of regulation, the cooperatives' relations with the state were also of exceptional importance. Since then relations with the markets and competing enterprises gained in importance. In 1905, the cooperatives were a radical movement. By the second world war they had become part of the market economy, and afterwards they became an integral part of a state-regulated economy with MTK as their spokesman. During the 1990s, traditional cooperation functions as enterprises and businesses, important to the national economy but without any major agenda of social or political reform.

One of the main ideological changes of the 1980s was the conversion of cooperatives into companies, the hiving off of specific operations into joint-stock companies. Cooperation took on the character of its competitors, but in the minds of speculative investors they were businesses "riding into the sunset". Cooperation had to take both its membership and image seriously. In the early 1990s, the movement's identity suffered a severe shock when the Hankkija-Novera group went bankrupt. The central society's new name, corporate structure and course were not enough. The fate of Hankkija and the collapse of the progressive cooperative movement raised questions about the nature and future of cooperation in general.

The fundamental changes of the 1990s stem from the economic recession, the bank crisis and heightened international competition, but the worst challenge was to cooperative solidarity. New competition legislation made it impossible to continue the old type of nationwide federative cooperatives. Whenever the opportunity presented itself, the regions would try to gain the upper hand: the cooperative slaughterhouses discontinued their TLK central society, and there were splits in the Valio and cooperative bank organisations. The fear of local dairy closures disrupted the previously united cooperative dairies. Within the cooperative bank group, the small and financially solid rural banks were dissatisfied with the reckless lending policies of the

urban banks and withdrew from the old bank organisation. Previously, the Pellervo Society had had to call for collaboration among the various sectors of the cooperative movement, now solidarity even within the sectors was threatened.

For decades official settlement, regional and agricultural policies had sought to keep the whole country inhabited and agriculture alive in otherwise unfavourable areas. By paying all the producers the same price regardless of their location, the cooperative societies had lent substantial support to regionally balanced development. But farmers had to face considerable difficulties when Finland opened its food market to international competition in the 1990s. This increased concern within the food industry, which was dependent on domestic raw materials. In places, rural depopulation undermined the local cooperative banks. In addition to the future of agriculture, the provinces were also concerned about the concentration of cooperative production in southern Finland. Valio in particular had to struggle for restructuring that involved centralisation. Many smaller dairies left the organisation for fear of being closed down. These measures have been even more difficult for decision-makers concerned about employment. Among others, the governors of the northern provinces have pointed to changes in the relationships between regional development and cooperation. The northern region is beginning to lack milk processing facilities, slaughterhouses, central warehouses and even granaries. Finland joined the EU in the mid-1990s and it has now become usual to think that the provinces and regions should survive on their own merits and secure their own futures. The cooperatives originally responded to these needs. The Pellervo Society has made the new rise of the provinces one of its core themes of the 1990s. Regional issues are crucial to cooperation, which has always involved operations and decision making at the local level. In the Society's philosophy, however, excessive intra-group dispersion on a regional basis is detrimental. Moreover, local identity is often associated with the national character of cooperative production and its Finnish ownership.

## Safeguards fail

The producer cooperatives benefited from their political influence in and traditional links with the Centre Party and the Social Democrats. Direct personal contacts with the inner circles of the political establishment gradually weakened, and one day the president of Finland was no longer from the Centre Party. In 1987 the party went into opposition for the first time in many years. The post of minister of agriculture, traditionally a Centre Party position, now went to a Conservative member associated with MTK. Despite this, the position of the producer organisation and the farming population deteriorated. The new Social Democratic-Conservative government and its consumer-friendly policies were not popular among the producers.

Finland's rural population traditionally had three bases for safeguarding and monitoring its interests: the Centre Party, MTK and the central cooperative societies. Since Mauno Koivisto's presidency the role of the Centre Party in government has no longer been self-evident. This traditional protagonist of the countryside was even losing its agrarian identity. MTK assumed a new role when Finland joined the EU. As political support waned, the commercial organisations remained the most prominent element of the above three bases, although most of the central societies have now been discontinued or face disruption. Dwindling political support for agriculture was recognised in Pellervo's own analyses in 1992. Political decision-makers would no longer channel money to Pellervo-affiliated enterprises, which would now have to depend on the market for their money. The former security that enveloped the farmer and his cooperative society was falling apart, when the "feather-bedding" system of import controls and guaranteed prices erected during the 1950s was dismantled.

In anticipation of fundamental changes, the Pellervo Society set out to seek a new and more active role in supporting cooperation. This began before Finland joined the EU and before the old system of agricultural income negotiations had

ended. Since then the price of agricultural products is determined in the corridors of the EU power and the market place. Pellervo took upon itself the task of helping the owner management of the cooperatives understand the tremendous changes that were to take place and to adapt to them. The Society surveyed the effects of European integration on the conditions under which the cooperatives could operate. In 1993 it raised the leading elected representatives of the central societies to its board of directors in place of the managing directors. The latter, with whom MTK had negotiated and made agreements in the days of the regulated economy, now had to make way. The new board wished to help cooperative owners by first reviving the old principle of self-help. It began to focus on the ability of individual cooperatives to stand alone, to bear greater responsibility for themselves and to find their way out of the structures of a closed economic system, as well as a centralised corporate organisation that had managed to blur negotiating and ownership responsibilities, and even the boundaries of political power and responsibility. The long post-war period of regulation, which had made the membership passive, was now regarded as an abnormal time in the history of the movement.

## Towards a general line?

In the public image during the postwar years, the Pellervo Society was associated with MTK and the Centre Party. When deregulation set in, the Society's leadership felt it was possible and even desirable to dispel this concept. During the 1990s the leaders met with perhaps more political parties and groupings than ever before. The managing director said that the Society wished to return to the "general line" of the early 1900s. The Society gradually accepted the idea that the traditional opposition of producers and consumers was a thing of the past and it could develop into a joint organisation for all cooperative ventures in Finland. Its members still included the cooperative banks and the rapidly urbanising

Lähivakuutus insurance company. It had become increasingly important to build bridges towards the consumers even in the producer cooperatives. New cooperatives fanned by the economic recession did not necessarily appreciate the old contacts with MTK or the Centre Party alone.

MTK and the Centre Party, however, have remained a prominent reference group for the Pellervo cooperatives and the Society in general. The managing director and the directors of the central societies have been Centre Party members, and the former chairman of MTK chaired the Society's council through the changes of the past years. The Pellervo leadership had close contacts with the former chairman of the Centre Party. In the late 1980s he and a group of financiers had planned the restructuring of the Finnish economy and the concept of a bastion of Finnish (or Conservative-owned) capital – the so-called KOP camp – together with that represented by the members of Pellervo. The Society's leaders listened with interest to these plans, showed a some interest in these plans, but they were never realised.

Pellervo's progress suffered another blow when SOK, which sought a new reference group, resigned in the 1990s. SOK feared it would be politically branded so long as it remained a member. This marked a growing differentiation of consumer cooperation beyond political boundaries. These fundamental changes spelt internal disruption for the Society and its cooperatives, but on the other hand relations with the progressive and Swedish-speaking cooperatives improved. Clarification of the division of tasks within trade and industry eradicated many conflicts. Firstly, the cooperatives gave up their dairies. When TLK purchased OTK's meat operations in 1981, these developments marked attempts to improve relations between the agricultural sector and the consumers. The former competition between Pellervo members and the progressive cooperatives died down and a new willingness for joint ventures between SOK and the consumer cooperatives developed. When the progressive consumer cooperatives collapsed, Pellervo took the opportunity to welcome the



“homeless” to its own organisation, but this was not considered seriously before the group’s own cooperative retail sector resigned. On the other hand, collaboration was re-established in 1993 with the Swedish-speaking cooperatives, which had resigned over disputes as far back as the 1910s.

## A new national strategy?

Historically, the cooperative movement, the international situation and Finland’s own survival strategies have been closely linked. During the years of Russian oppression, of war and reconstruction, of political consensus and the welfare state, the cooperatives have always played a constructive role and sought their own field of operation. The collapse of the Soviet Union and Finland’s membership of the European Union posed a new international and political situation. The cooperatives are again addressing their modes of action and the Finns are considering their national strategy. The Society sees similarities between the fundamental changes of the 1990s and the earlier ones. The “Russian onslaught” of the years of oppression has now been replaced by the onslaught of market forces. And since Finland’s EU membership in 1995 came with as much suddenness and surprise as the February Manifesto of 1899, national goals and solidarity are again desired items.

In 1995, the cooperatives and MTK began to call for a “social contract” to safeguard food production in Finland, the idea of a new national agenda. Relations between



In October 1991 over 15 000 Finnish farmers took part in a massive demonstration, carrying banners and placards voicing their fears that membership of the European Union would prove fatal to Finnish agriculture.

society and this sector suffer from the burden of history, so it was necessary to dismantle old attitudes, improve interaction and discuss national objectives within the framework of the European Union. Many felt that Finland should act selfishly in regard to the EU in order to support its own food chain. The challenge facing this chain in the new situation is to prove that it is a necessary and useful part of the economy by convincing the consumers and Finnish society in general of its principles, transparency and determination to forge ahead. Society, in turn, should provide this sector with the means to operate and should also prepare a national agenda for the production of food.

The new national agenda gathered support as the most fervent attitudes towards agricultural

policies waned and decision making largely transferred to Brussels. MTK, the Centre Party and the Pellervo Society are unanimous in calling for a new strategy based on Finnish resources. Even the traditional opposition has expressed its understanding. A long-term former prime minister and leading Social Democratic politician recently underlined the importance of a successful food industry for producers, consumers and society as a whole. It is of course possible that no new strategy will emerge, so Finland will be integrated into the international system, companies will establish direct links to developments abroad, and traditional nation states will lose political and economic control. However, in spite of internationalisation, Pellervo enterprises remain firmly rooted in Finnish soil.



A photograph of a winter scene. In the foreground, a large, dark tree trunk stands in a snowy field. The branches of the tree and other trees in the background are heavily covered in white snow. In the background, there are two wooden buildings, possibly houses or barns, also partially covered in snow. The sky is a pale blue. A dark blue rectangular box is overlaid on the upper right portion of the image, containing the author's name and the title.

SAMI KARHU

**THE COOPERATIVE  
ECONOMY AND  
ITS STRATEGIES**



# THE PELLERVO SOCIETY ORGANISES\*

## Cooperative societies established

“**T**he watchword – if such it can be called – of the economic life of this century has been *laissez faire*,” wrote Dr Hannes Gebhard in his study of farmers’ cooperatives in other countries, published in Bonn in 1898. “Individual freedom of action has been widened in the name of free competition and the wealth of nations increased. However, unrestricted competition has allowed the accumulation of tremendous wealth in the hands of the few. And for those trampled under the feet of the mighty, the age of prosperity has meant enslavement.”

The immediate reaction to this was revolutionary socialism, but gradually there emerged the idea of collaborating in free enterprise, of working together rather than alone, in order to improve their well-being. Cooperatives were established, new kinds of enterprises, the purpose of which was to serve the interests of their owners and members by replacing private businessmen and the owners of capital and producing a profit for their members.

Among the farming population, these commercial endeavours took the form of joint buying and selling organisations and credit and insurance

associations. Cooperation helped the farmers to produce more cheaply, obtain a better price for their raw materials by industrially processing them, arrange sales more favourably and acquire capital through credit and insurance. While abroad, Gebhard had noticed that the creation of one cooperative soon led to others. The real strength of local, primary cooperatives came when they joined together in federations and central societies. The purpose of cooperation was to join individuals together locally. The next stage was when the local societies joined together to form national central societies.

Within a decade after the appearance of Gebhard’s pioneering work, a rapid start had been made to cooperation in Finland. On his initiative, and with the backing of a number of Helsinki intellectuals, the cooperative *Pellervo Society* was established in autumn 1899. In 1901 the first Cooperative Societies Act was passed and by 1905 there were four central societies for local cooperatives. “As in a house, we stood within four walls – the retail cooperative societies, dairies, credit societies and others. And we had already built four towers: SOK, Valio, Hankkija and OKO. Within this building we now have 1800 rooms,” wrote Gebhard in 1909.

In Gebhard’s view, the aim of cooperation was to place business life on a healthier basis and in accordance with the needs of the people. Due to its pursuit of profit, capitalism was organised from the top down, whereas in cooperation it was the

\* Original text shortened by Annastiina Henttinen



reverse. Under capitalism, industrialists competed to produce as much as possible as cheaply as possible, and quality was often a secondary consideration. Moreover, the chains of middlemen meant an additional expense in trading, which was naturally passed on to the consumers. In a cooperative, it was the consumer who decided what goods were required and how much to pay for them, and the society who placed the order. Similarly, banking should be oriented towards those in need of credit rather than the pursuit of interest. The cooperative was the best form of enterprise for farmers as successful joint-stock companies invariably landed up in the hands of the financiers.

Even before the Cooperative Societies Act was passed, the Pellervo Society had urged farmers to organise the purchase and sale of agricultural supplies and produce through the farmers' societies. Pellervo's *Välitysliike* buying agency was established in 1901 for this purpose and was fairly successful in reducing the prices and improving the quality of agricultural supplies. Problems arose from its weak local contacts, juridical position and lack of capital.

Following the Act, the first genuine cooperatives were established, foremost among them the dairies due to butter being the farmers' main product and an important export. Some of the new cooperative dairies were created from former joint-stock dairies, the incentive being the availability of state loans. The dairies were strictly controlled and for butter to obtain a decent price it had to be of high quality. Great attention was paid to hygiene in livestock raising and butter production, as well as to member commitment, delivery reliability and competent management.

Farmers had to join together to obtain joint-liability loans as cheaply as possible. Small cooperative credit societies needed a central loan fund, which Pellervo developed along the Raiffeisen model in Germany. The *Osuuskassojen Keskuslainarahasto-Osakeyhtiö* (the cooperative credit societies' central credit fund, OKO) began operations in 1902 and succeeded in obtaining state aid and a considerable state loan. This led to

the formation of numerous credit societies in accordance with a specific operating model and set of principles. They only provided credit for well-planned projects to promote agricultural production. A small size was favoured for a rural credit society as its members would know each other and thus be more likely to accept joint liability for its debts.

The idea of cooperation spread among Finnish urban workers along the lines of Great Britain. Stores operated by cooperative societies were established before the Pellervo Society came into existence. Farmers' societies, however, refrained from setting up stores, as they were doubtful of their success. In Central Europe, the movement had only succeeded when in capable hands, in densely populated areas and as inter-class enterprises. This is why farmers were urged into joint buying and selling cooperatives or credit societies and dairies. Because people thought differently about the issue of cooperative stores, Pellervo was forced to give advice on setting up retail cooperative societies.

Forest industry products were among Finland's most important exports. As the wood required by industry came from mainly farmer-owned forests, and because industrialists bargained from a position of strength, there was an understandable need for farmers to organise into cooperatives. Pellervo was again cautious, as it doubted the ability of forest owners to commit themselves to and invest in cooperatives and successfully compete with the large and experienced companies. There were no precedents from abroad; neither was it thought desirable to question the primacy of agriculture in the farming economy. Instead of going in for processing, as Pellervo urged, forest owners were advised to collaborate in forest management and timber sales.

The foundation of OKO in 1902 was followed by the establishment of other central cooperative societies: *Suomen Osuuskassojen Keskuskunta* (Finnish Cooperative Wholesale Society, SOK) in 1904, and *Keskusosuusliike Hankkija* (Central Cooperative Society *Hankkija*) and *Vainvientiösosliike Valio* (Butter Exporting Cooperative

# MILK KNOW-HOW

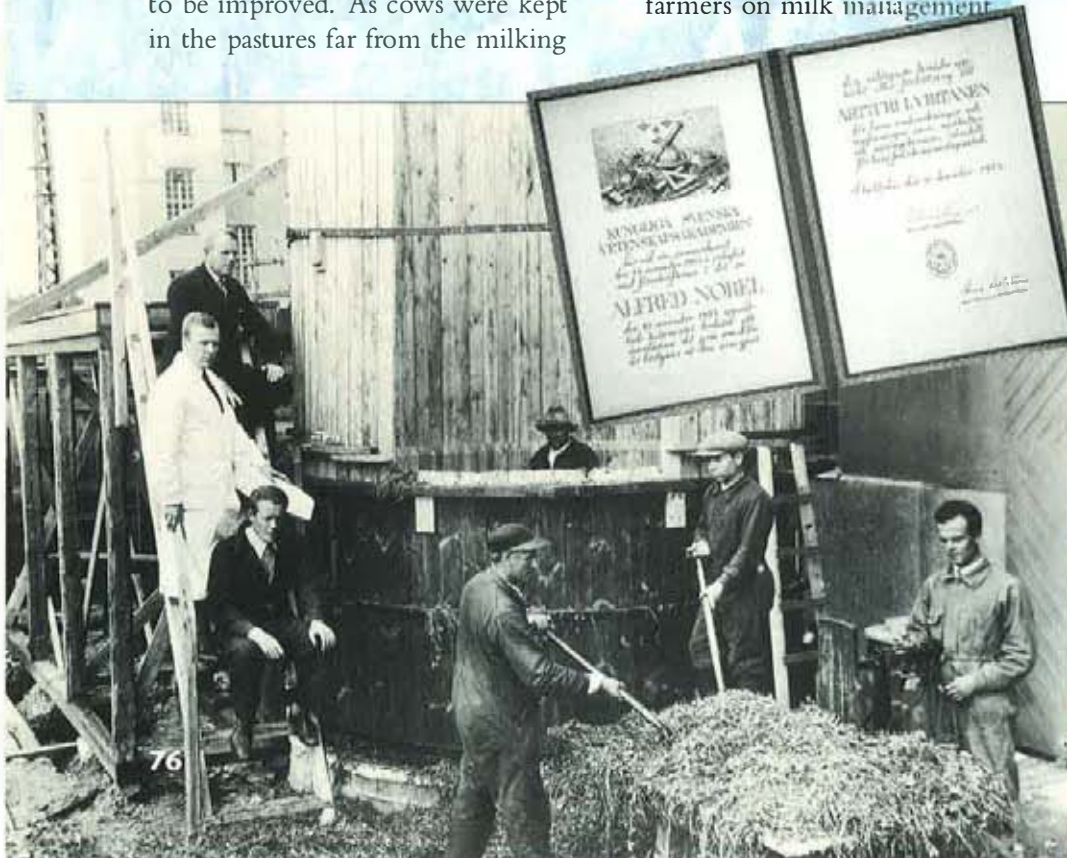


In order to promote its market presence, Valio took the early decision to concentrate on quality. Its main problem was that milk easily went off, so hygienic conditions had to be improved. As cows were kept in the pastures far from the milking

room, the milk was already badly warmed before the separator was activated. Inspection societies were established alongside the dairies, whose skilled dairymaids advised farmers on milk management



In 1916, Valio set up a laboratory to research dairying. Its manager, Dr Artturi Ilmari Virtanen investigated the possibilities of keeping silage fresh without any significant nutritional loss. For the AIV process he developed, Virtanen received the Nobel prize for chemistry in 1945. Ever since the 1940s, silage silos have been a feature of the Finnish countryside and a fine example of far-sighted cooperation. By paying for the research, farmers improved both the quality of their products and their standard of living.

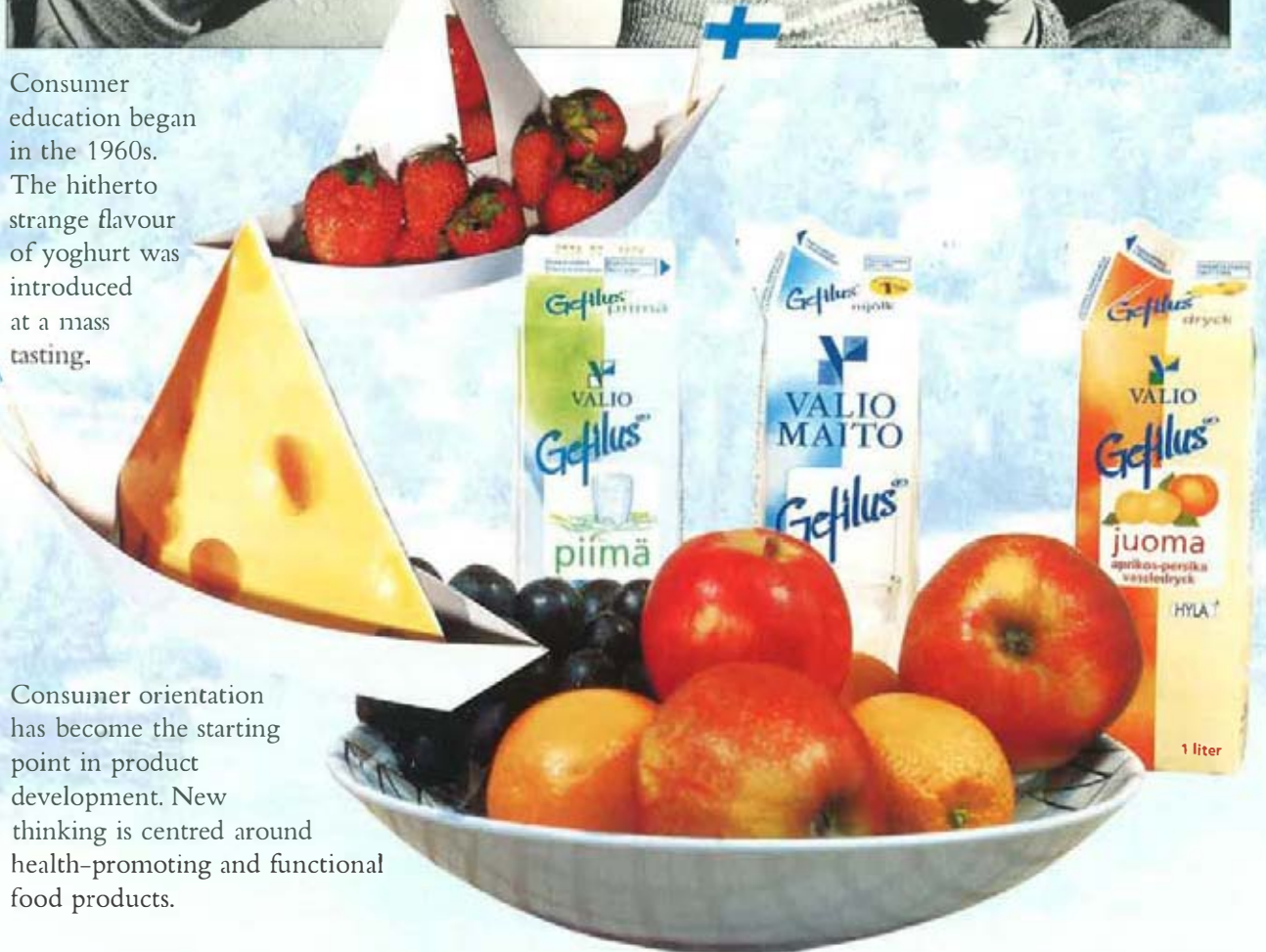






Consumer education began in the 1960s. The hitherto strange flavour of yoghurt was introduced at a mass tasting.

Consumer orientation has become the starting point in product development. New thinking is centred around health-promoting and functional food products.





**TURNOVER OF CENTRAL WHOLESALE GROUPS  
1960, 1960 and 1970**

|      | SOK    | Hankkija | Labor | OTK    | Kesko  | Tuko   |
|------|--------|----------|-------|--------|--------|--------|
| 1950 | 14,9 % | 4,3 %    | 0,8 % | 14,6 % | 12,9 % | 52,5 % |
| 1960 | 15,5 % | 6,1 %    | 0,8 % | 13,6 % | 19,6 % | 44,4 % |
| 1970 | 16,9 % | 7,9 %    |       | 12,4 % | 21,8 % | 41,0 % |

Society Valio) in 1905. Although Pellervo had always stressed the importance of central societies, developments were far quicker than it imagined.

SOK was largely the creation of the Tampere area workers' cooperative societies. Twelve, mainly workers' societies were present at the foundation meeting, and of the 68 cooperatives then in existence, 37 were represented at the delegate conference. Even then there were differences of opinion with Pellervo over the organisation model, largely due to the workers' suspicions of the bourgeois character of the Society. Doubts were also expressed as to how the interests of consumers and producers could coincide in the agricultural produce trade.

Hankkija was established by 18 cooperative dairies, 27 credit societies and two buying and selling organisations. It carried on the work of Pellervo's Vältysliike, but functioned as an independent central society. Valio was the outcome of pressure from the cooperative dairies, but Pellervo also played an influential role. Even so, only 17 of the 200 or so dairies joined Valio initially.

### ***Successful business operations***

Pellervo exerted an important de facto influence through having its representatives on the boards of many central societies. The Society's intellectuals exercised the owner's voice in the supervisory boards of OKO and Hankkija. Valio's supervisory board was in the hands of farmers representing the member dairies and SOK's board, until 1915,

was manned by representatives of the workers' consumer cooperatives.

The supervisory boards of Hankkija, OKO and SOK obtained a powerful position in corporate management. Professor Alfred Oswald Kairamo, a founder member of Pellervo, a social influencer and friend of Gebhard, was in charge of Hankkija. He was also a trustee of KOP bank, Hankkija's main financier. The chairman of OKO was another Pellervo man, Julian Serlachius, a well-known lawyer and drafter of the 1901 Cooperative Societies Act. Valio's management was in the hands of professional managers.

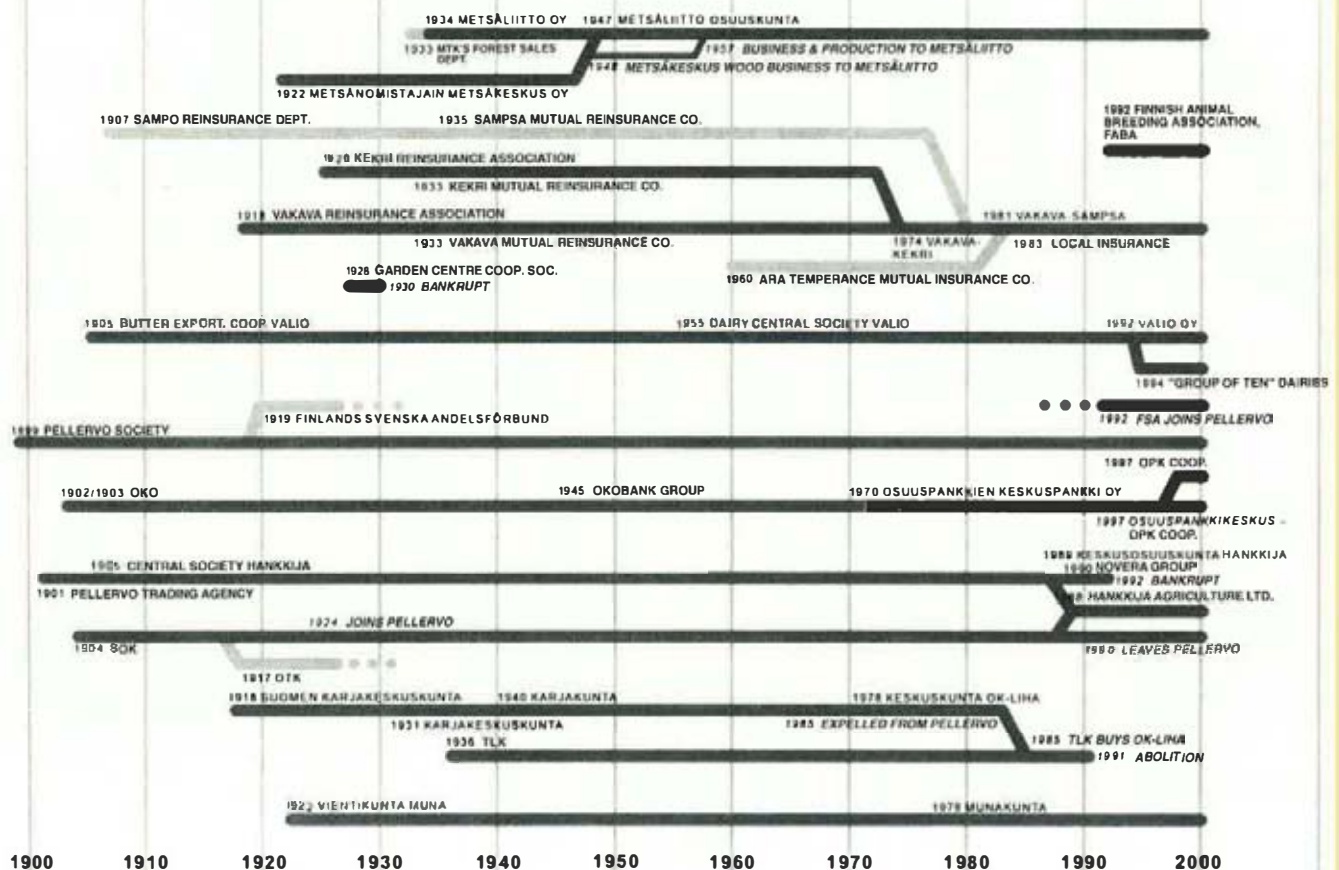
Pellervo also exerted a strong influence over the choice of top managers. Pellervo's founder, Hannes Gebhard, was general manager of OKO until his death in 1933. Hankkija's was the former leader of Pellervo's Vältysliike. From 1908 onwards, Valio's was the brilliant historian and economist, Dr FM. Pitkäniemi. Although his doctorate thesis concerned international trusts and cartels, Pitkäniemi had no practical business experience. This, however, was compensated for by a strong character and exhaustive knowledge of the global economy. Under his leadership, which lasted until 1944, Valio enjoyed incredible success.

Many others of the early, Pellervo-oriented managing directors had no previous experience of business management. The commitment of the central societies to the common goal was ensured through appointing the same people to two or more company boards. For the same reason, central society representatives were elected to the board of the Pellervo Society.

### *Establishment and growth of Pellervo central societies*

Cooperative enterprises are characterised by networking. In addition to the local or primary cooperative society model there are also central federative structure composed of the primary cooperative societies, and their central societies. This federative process occurred early on in the history of Finnish cooperation and became quite extensive. It retained its original character until the early 1990s.

## ESTABLISHMENT AND GROWTH OF PELLERVO CENTRAL SOCIETIES



## DAIRIES



Although dairies at the beginning of the century were small, they nevertheless offered milk suppliers the chance of a regular income.



Finland's largest churn in the Viipuri cooperative dairy, 1929.





The 1960s were years of momentous change. Dairy production diversified and machinery modernised. Nowadays, production is concentrated in a few dairies to ensure efficiency and maximise capacity utilisation.



Economically speaking, Pellervo enterprises started up at a favourable time. Foreign trade expanded steadily from the early 1890s to 1914. Hankkija's beginning, however, was less auspicious as the sales of agricultural supplies and machines did not rise as quickly as costs. SOK and Valio, on the other hand, got off to a good start. The former bought and sold industrially-produced goods and groceries and entered into direct sourcing agreements with suppliers, and the latter obtained for its high-quality butter a price on the British market that slowly approached that of the finest Danish product. As this facilitated Valio's ability to pay the dairies, it attracted new members, and by 1906 the company accounted for a fifth of all Finnish butter exports.

The cooperatives experienced their first serious recession in 1907–08. Hankkija suffered in particular as its business was largely financed by bank loans. Rising interest rates coupled with lower than predicted sales and massive investments led to negative performance. Even though retail cooperative societies were allowed to join in 1905, and the farmers' societies and private individuals in 1908, this did not improve the company's weak capital structure. Its share capital remained low and member commitment left much to be desired. The 1910s were good years and the company showed a profit. During the first world war, Hankkija began trading in grain, leather and firewood, purchased its first flourmill, and began improving seed quality, manufacturing machines and electrifying the countryside.

Hankkija's problem was that it lacked the same homogeneous membership as the other central societies. When the retail societies became Hankkija's main buyers of agricultural supplies, it built its operations around them. Due to their character, however, Pellervo feared that Hankkija would fall into the hands of the labour movement. Nevertheless, the Society had to acknowledge the importance of the retail societies in agricultural cooperation. The biggest problem was the tension between the urban workers' societies and the rural ones, which culminated in 1916–17 in a split in the SOK cooperative movement.



F.M. Pitkaniemi

Despite the recession, SOK thrived, but nevertheless some hundred societies went bankrupt between 1908 and 1914. After the recession, the central societies were quite successful, growing impressively within a short period. In 1912, the value of sales by the largest cooperative enterprises were in much the same class as the output of the largest – mainly forest industry – companies.

The central societies operated with a small share capital in order that the threshold for local societies to join was as low as possible. Member societies, however, were required to take up additional shares as their turnover grew, butter production expanded or purchases from their own wholesale society increased. This obligation to take up additional shares to improve credit worthiness applied to all societies. As share payments were never large enough to finance the societies, considerable bank loans were required. SOK and Hankkija established their own capital-raising companies.

The financial solidity of the central societies was strengthened by the influx of new members, increased share payments and profitable operations. As only modest dividends were paid on purchases, this helped the accumulation of funds. To avoid tying up capital in slow turnover, SOK kept stocks to a minimum and demanded quick cash payment from its members. Valio, on the other hand, purchased butter from its members on account and only paid them when it itself had received payment.

SOK grew into Finland's largest wholesaler, following the day's price principle and only offering quality goods. It nevertheless avoided top prices and all forms of competition. Member societies were allowed to buy from other wholesalers if the prices were lower or the goods unavailable from their own supplier. SOK tried to maintain the same price for all members, but in practice those buying large quantities received discounts.

On the whole SOK had good relations with its member societies, and their purchases from the central society accounted for 70-90 per cent of total sales. In the early years, slightly more than half of SOK's sales went to them. As it was possible to buy without joining, not all societies became members. Even so membership grew rapidly, raising from less than a tenth of the existing cooperative societies at the time of its foundation to about a third by 1910 and almost 60 per cent of the more than 400 societies by 1914. In addition, most of the non-members also had business relations with SOK. On the eve of the first world war, SOK was to all practical purposes the sole wholesaler of its member societies.

With the outbreak of hostilities difficulties arose in importing from the west so SOK and Hankkija redirected their sourcing operations to Russia. There were no problems with supply, but it was impossible to meet the demand for all goods. Shortages led to a growth in membership as the societies were in a privileged position. SOK also managed to curb the rise in prices, which naturally pleased the societies. Ultimately about 90 per cent of the 500 or so societies became

members. In order to guarantee supplies, good quality and fair prices, SOK began its own production during the war.

Valio gained the edge over all other butter exporters and achieved almost the same price as the Danes. By 1914 its share of the export market was over four-fifths. Every year Valio produced a profit. To avoid over dependency on exports, the company set out to conquer the domestic market. Successful business operations coupled with the good prices paid for quality butter in the market place enticed more cooperative dairies to join. In 1905 only about a tenth of them had joined, two years later almost half of them were members, and by 1914 about 60 per cent of the 400 or so cooperative dairies were in Valio.

Opposition to Valio among private businessmen increased and the company was unscrupulous in its response and was particularly aggressive towards other cooperatives. Pellervo felt that there was no room for competition within the cooperative movement, and considered that Valio had improved its efficiency enough from competing in the export market.

Valio survived the war in one piece. Trading relations with Germany were broken off once it became the enemy, but Valio was the only Finnish butter exporter to continue exporting to Great Britain at the beginning. For this reason it gained new members and strengthened its relations with existing ones. Although the best price for butter was obtained on the export market, after 1917 even Valio was forced to depend solely on the domestic market. Valio branched out into the unrationed cheese and milk trade, establishing milk selling cooperatives and building its first plant to produce milk and butter from its own dairies.

The state loan granted to OKO in 1903 sufficed for years. In the 1910s, capital began to trickle back from the credit societies to OKO, which already received their deposits. OKO began granting loans to other cooperatives, and by the end of the decade these were larger than to the credit societies. Other forms of financing developed alongside state loans, bank deposits and share capital. In 1915 the Bank of Finland granted



## COOPERATIVE STORES – THEN AND NOW

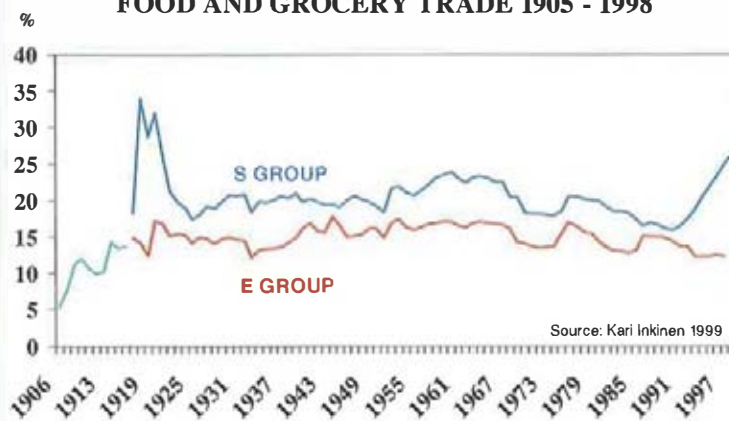


The coop store lay at the heart of rural cooperation. It bought and marketed the produce of field and forest. The Kuusamo cooperative's main outlet was a well-stocked general store like most other coop shops.

By the 1950s coop stores had become lighter, but they still supplied everything a household needed. Self-service and pre-packs arrived in the 1970s. SOK was a pioneer in developing department stores in Finland.



**COOPERATIVE MARKET SHARES IN THE  
FOOD AND GROCERY TRADE 1905 - 1998**



Source: Kari Inkinen, 1999



an interest-free loan from its profit fund, and commercial banks and private individuals subscribed to OKO's new capital floatation. In the following year KOP bank underwrote OKO's first bond loan. In the 1920s the credit societies were allowed to accept deposits also from non-members.

As the credit societies were completely dependent on OKO loans, and because they were unable to take up shares in the central societies, the bank retained great power over them for a long time. It was not until the 1920s that they managed to buy the share capital of OKO from private individuals. At this stage the state became the majority shareholder in OKO, which in turn weakened the credit societies' hold over it. The credit societies successfully found their role in the cash flow between the state and the countryside. They reloaned the capital the state had loaned them for developing agriculture and settlement.

Two new Pellervo central societies appeared during the war. The fatstock selling cooperatives (cooperative slaughterhouses), set-up earlier to fight against requisitioning by the army, applied to the Pellervo Society for help in establishing a

monopoly in the meat trade, firstly in Russian army procurements and then in the civilian market. This led to a nationwide network of fatstock cooperatives and the foundation of a joint body which soon developed into a central society, *Suomen Karjakeskuskunta* (Finnish Livestock Central Society **Karjakunta**) in 1918. This enabled its members to obtain a foothold in the urban meat trade, eliminate internecine competition and improve prices. Exceptionally, it was established without Pellervo approval.

The other central society was *Jälleenvakuutusyhdistys Vakava* (**Vakava** Reinsurance Society) founded in 1917. Fire insurance associations were comparable to cooperative societies. They established a central society because they saw in the payment of dividends an undesirable flight of rural capital to the towns and industry. In 1926 *Jälleenvakuutusyhdistys Kekri* (**Kekri** Reinsurance Society) was established alongside Vakava for the livestock insurance associations. In its vigorous struggle for the reinsurance business of the fire insurance associations, Vakava had by 1934 been joined by 156 insurance associations, its worst competitor having lost forty societies within a few years.



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# UNDER THE LEADERSHIP OF CENTRAL SOCIETIES

## Changes in the corporate environment

The era of *laissez faire* ended with the first world war, after which international trade became characterised by protectionism, import quotas, bilateral agreements and export subsidies. Governments intervened in inter-company relations, restricting or promoting the traffic in goods in the national interest. It thus became imperative for companies to influence trade policies within the country through their federations, associations and personal contacts. Pellervo enterprises had excellent contacts among civil servants and politicians, and Pellervo leaders occupied key positions in the political arena.

Pellervo identified itself with the national interest, agriculture and farmer-owned enterprises. The political clout of the Agrarian Union could be seen in the advantages gained by cooperatives, which other companies did not view kindly. The subsidies paid to exporters of agricultural produce helped Pellervo companies pay for raw materials, as export prices were higher than domestic ones. Pellervo companies were also successful in obtaining export quotas.

One feature of the changing environment was the formation of groups. In his thesis on international cartels, Valio's general manager E.M. Pitkaniemi had observed how companies organise

themselves into national and international groups in order to maintain profitability by influencing supplies and prices. Agricultural producers could use the same successful mechanism for themselves. Close collaboration between farmers' cooperatives would protect them against the cartels and trusts working to reduce agricultural prices.

Pellervo cooperators recognised the advantages and benefits of cartels in the national economy. Those serving only the interests of capital, however, were considered socially dangerous. What was problematic from the point of view of both the consumers' and workers' cooperatives was that these "farmer" cartels were just as guilty of increasing prices as the rest. This view only became more pronounced during the wartime food shortage and the internecine struggle within the cooperative movement. Pellervo's assurances of the common interests of agricultural cooperatives and consumers fell on deaf ears.

During the 1920s and 30s, the managing directors of cooperative central societies were already experienced people. Some of those who had begun in the early years of the century continued in office. The new ones were recruited from inside Pellervo companies, often promoting one of their own directors. The farmer directors in the provinces obtained a stronger position within the elected bodies of their companies, except in OKO whose administration reflected its close ties with the government and its agricultural policies.



## METSÄLIITTO

Metsäkeskus failed to establish a foothold in the early 1900s. Forest cooperation was limited to a small sawmill, often combined with a flourmill.



In 1922, Metsäliitto's predecessor, the Pellervo Metsänomistajan Metsäkeskus Oy, founded its own wood yard in Kotka's export port.

In the early 1950s, paper industry products accounted for almost half of Finnish exports. This was the time when cooperative operations in the forest industry began their astonishing rise.







The 1990s in the forest sector were marked by massive investments and company take-overs. Great emphasis was placed on innovative product development and care for the environment. One of Metsä-Serla's latest investments was in the Kirkniemi paper mill.

In 1977 Oy Metsä-Botnia Ab's Kaskinen plant began producing bleached cellulose from wood grown in the province.







SOK's first venture into manufacturing was a brush factory opened in 1916. The flagship, however, was the match factory because most of its output went for export.

Power relations between the professional managers and elected officials in the central societies varied. As the supervisory boards grew in size, the individual member became estranged from the decision-making process. A strong professional management continued in Valio, whereas financial difficulties undermined the position of Hankkija's management. A well-connected supervisory board chairman and the hold of the financing bank limited the managing director's authority.

As the importance of regulations and subsidies grew in the operating environment and its organisation became more group oriented, the old ideas of the Pellervo intellectuals were abandoned. Professor A.O. Kairamo, a founder member of Pellervo and chairman of Hankkija's supervisory board, resigned at the end of the 1920s. In his

valedictory speech he expressed views that diverged from the general trend. He considered it quite natural that some companies, also cooperative ones, would suffer in competition. He emphasised the importance of members, responsibility and economic risk, and disapproved of other cooperatives subsidising unprofitable operations. At the same time, however, there had been a vast increase in the range of government support.

## With varying success

One of the greatest Pellervo success stories of the interwar years is Valio. Trading relations interrupted by the first world war were rebuilt, one domestic competitor after another was annihilated and the company managed to achieve Danish-level prices for its butter exports.

For the cooperative movement as a whole, the 1920s and 30s was to be a Golden Age. SOK's share of the wholesale market in the 1930s was

around 15 per cent, and its member societies controlled about a fifth of the retail market. Over half of their purchases were from SOK, accounting for almost four-fifths of its turnover. Once SOK expanded its industrial basis, especially into milling, the share of own production in sales increased. Following the split in the cooperative movement into the neutral and progressive camps, SOK concentrated more on the farming community, ie, trading in agricultural supplies and produce like grain, meat and eggs. It was not until 1928 that SOK paid a dividend to its member societies, but as this was in the form of a bond it still retained control over the capital.

Hankkija, too, consolidated its position as a wholesaler of agricultural supplies. It supplied dairy machinery, electrified the countryside, manufactured farm machines, purchased crops, and offered farmers advice and support. The company showed

a profit throughout the 1930s and became economically secure for the first time in its history. It worked hard to reduce its debts and escape from credit society dependency, similarly stressing the importance of profitability, thrift and building up reserves. Minimum stocks and cash trade was recommended. Both SOK and Hankkija managed to make a profit during the Great Depression. The retail societies strengthened their position as Hankkija's members and main sales outlets. After 1930, Hankkija only accepted local cooperative societies as new members. In 1935 the company declared its first modest dividend, most of which was retained as a compulsory, interest-bearing loan. As reserves were accumulated, the company was able to declare another modest dividend in 1938.

After the first world war, Pellervo agricultural producers established two new central societies. With help from old Pellervo organisations and influenced by the Danish model, fifteen egg selling cooperatives set up *Vientikunta Muna r.l.* (Egg Exporting Society *Munakunta*) in 1921 to manage the export of eggs. It was not successful as falling prices forced the company out of the export market and the overvalued Finnish markka undermined profitability. Also in the domestic market it was some time before *Munakunta* had any success. This, paradoxically, occurred during the depression – largely thanks to the Export Subsidies Act of 1929 – when many other companies went to the wall.

Also in 1921, forest owners joined together to establish *Metsänomistajain Metsäkeskus Oy* (Forest Owners' Centre *Metsäkeskus*, later *Metsäliitto*) to combat the dominance of the big forest companies in the wood trade. Although this was a grassroots initiative, it was encouraged by Pellervo and a number of other agricultural and forest associations. Despite the failure of earlier attempts, the new plan called for a strong central society to organise the local companies of forest owners, which would also function as their marketing outlet. This was much

For its first three decades, OKO's head office was in the Pellervo Society's house, and it was not until 1932 that it acquired its own building.



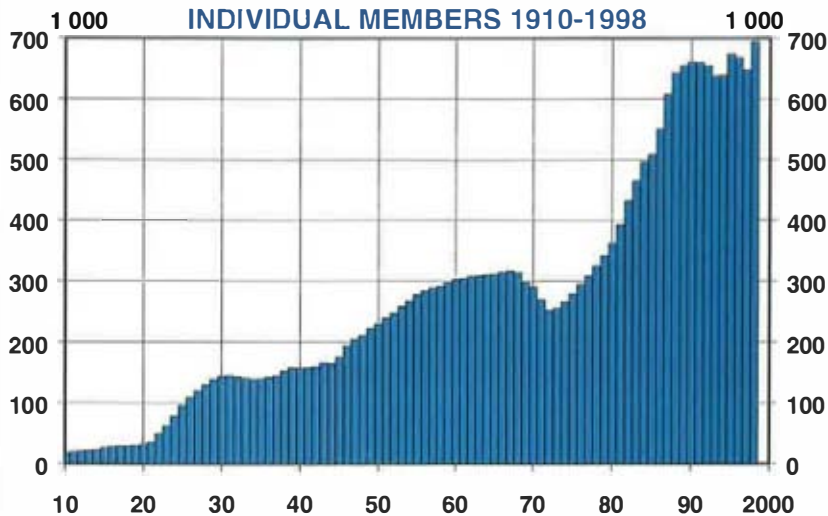


## OKO BANK



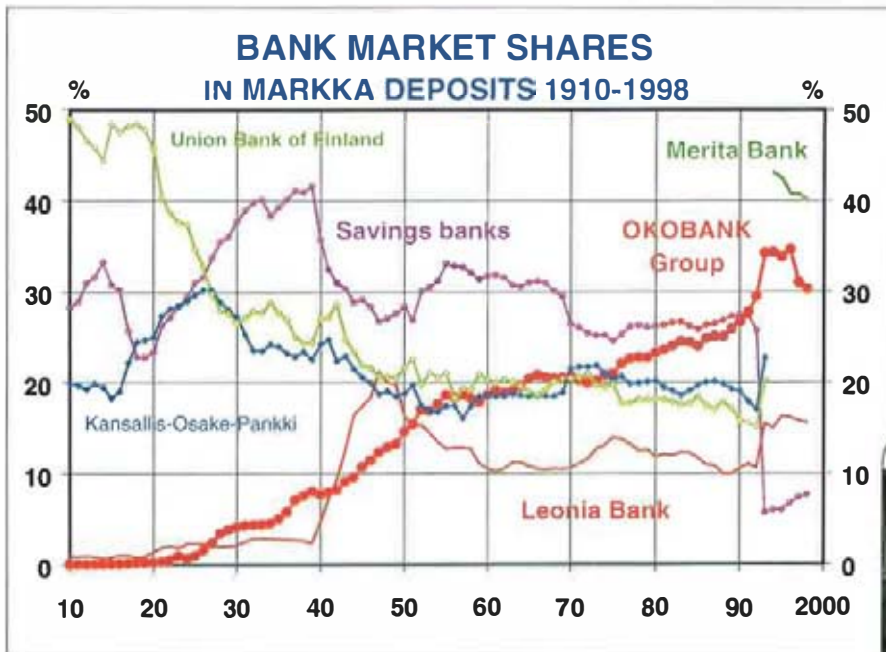
### OKOBANK GROUP MEMBER BANKS

INDIVIDUAL MEMBERS 1910-1998



Many cooperative banks opened their first branches in a farmer's "office". As people moved to the towns, so the cooperative banks followed, expanding their business and widening their clientele.





the same as had taken place with the credit societies some twenty years earlier. It proved, however, difficult to find the necessary capital from the over 8000 private forest owners, two hundred or so rural districts, and dozens of parishes, cooperatives and other associations.

Metsäkeskus got off to a good start with the export of timber, pulpwood and pit props as the international boom kept demand and prices buoyant until 1928. The company's subsidiaries, the local forest cooperatives and private companies, had their own sawmills. In the peak year of 1928, the eleven subsidiaries supplied nearly all of the wood required by Metsäkeskus and four-fifths of its pulpwood and pit props.

After losing their monopoly position, the provincial livestock selling cooperatives fared badly. As membership declined, the position of Karjakunta and its factories became increasingly problematic, difficulties were encountered in finding share capital and raw material deliveries were intermittent. The company was forced to buy direct from the livestock owners and accept cooperative societies as members. As a result, Karjakunta became a successful meat processing company during the interwar years. The company's relations with its members, however, became tense, as the procurement of meat independently of, and often in competition with the members was not its original purpose. Furthermore, they began to press for a greater retail society presence in the company. *Lounais-Suomen Osuusteurastamo* (Southwest Finnish Cooperative Slaughterhouse, **LSO**), the company's only truly successful member became increasingly frustrated. After all, LSO was as powerful as Karjakunta itself and had no intention of allowing its freedom to be curtailed. It also wished to export on its own.

The worst years of the Great Depression in Finland were 1930 and 1931. Even though the price of butter on the world market fell, Valio continued to declare a healthy dividend. Banking, on the other hand, experienced difficulties. The repayment of the 1930-franc loan after the devaluation of the Finnish markka proved especially burdensome to OKO, but fortunately the state

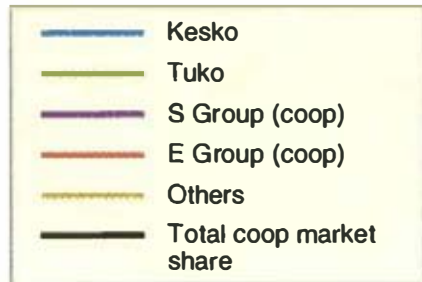
promised to refund its exchange losses. Otherwise the credit societies managed to stand on their own feet and reduced the share of state loans in their capital structure to about five per cent during the 1930s. The already weak livestock selling cooperatives were threatened with extinction until the state, on the initiative of the Pellervo Society, agreed to come to their rescue. Their membership, however, remained minimal, and the now disenchanted farmers were unwilling to invest in their own enterprises. Their dependency on state aid and bank loans characterised developments in this branch from those of other Pellervo enterprises in the late 1930s.

It was, however, Metsäkeskus and its subsidiaries that experienced the greatest difficulties. Wood sales and prices fell by so much that in 1929 the company's turnover slumped to FIM 25 million from over FIM 100 million. It was unable to reduce its debts, devaluation increased the cost of repaying foreign loans, and it also failed to reduce costs. Worst of all were the vast losses incurred by the undercapitalised and ill-managed subsidiaries which it had financed. As a result, Metsäkeskus was virtually placed in the hands of its bankers. Once *Maataloustuottajien Keskusliitto* (Central Union of Agricultural Producers, **MTK**) lost its faith in the company's ability to safeguard the farmers' interests, it set up a forest sales department and in 1933 *Metsäliitto Oy* (Forest Union **Metsäliitto**) to manage overseas sales.

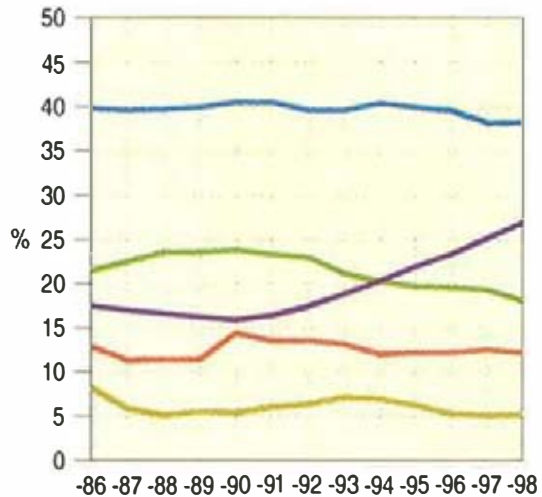
The second half of the 1930s, however, was a time of triumph for Pellervo enterprises. By now they were among the largest in the country and the secret of their successes lay in effective strategies, a favourable economic climate and state support. The dairies were helped by subsidies on butter and cheese exports introduced in 1933, which allowed Valio to raise settlement prices above the world-market level. Although intended as a temporary measure, the system remained in force. Even so, the domestic market became increasingly important to Valio and accordingly it increased the number of its sales offices, retail stores and dairies.

During the 1930s most Pellervo enterprises

## Retail food market shares in Finland

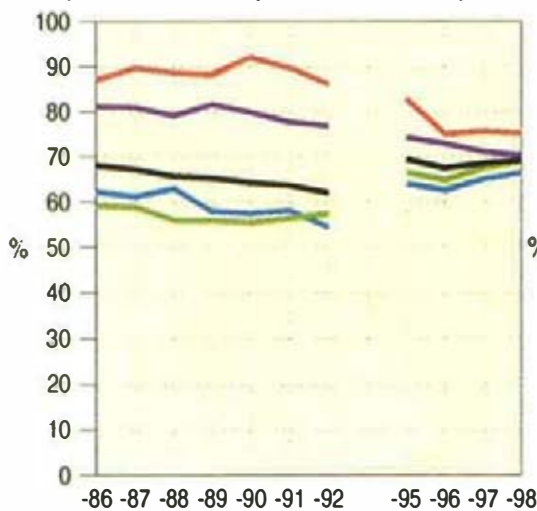


**Total food market**



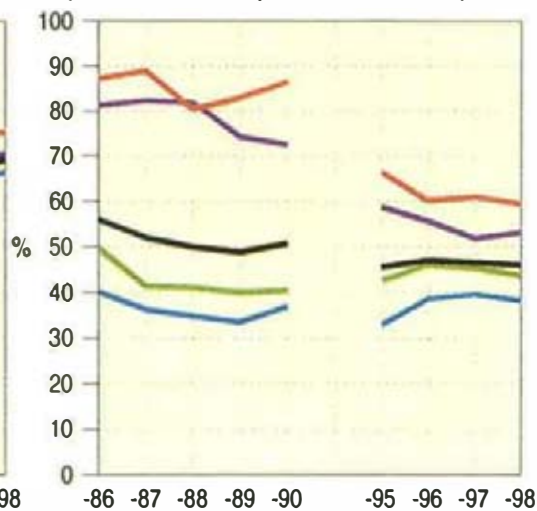
**Meat products**

(1995-1998 not comparable to 1986-1992)



**Convenience foods**

(1995-1998 not comparable to 1986-1990)



The private Kesko and Tuko groups deliberately purchased fewer products from the cooperative slaughterhouses as they did not wish to see the creation of a "meat Valio". To ensure the supply of meat and meat products from noncooperative sources, they purchased

from existing privately-owned meat companies and encouraged the establishment of new ones. Following Finland's membership of the EU and the opening of its food market, a significant convergence in this former pattern has occurred.

Source: A. C. Nielsen Finland Oy



managed to improve their financial standing. Profitable operations mean that reserves were accumulated and the dividend demands of the member societies remained modest. Their capital adequacy was not, however, based on paid-up share capital as the farmers showed little inclination to do this.

## The problems with retail cooperatives

Many of the local cooperatives were not particularly efficient and this meant problems for their central societies. The egg cooperatives were not standing firmly behind Munakunta, slaughterhouse deliveries to Karjakunta were intermittent, and Hankkija's special cooperatives did not fulfil their envisaged function. The gaps were filled by retail cooperatives, which proved highly capable of working with producers cooperatives, something considered positive during the difficult 1920s and 30s. In addition to SOK, the cooperative societies were also in a majority in Munakunta, Hankkija and Karjakunta.

Some farmers – with MTK support – saw the expansion of the retail societies into the agribusiness as contrary to their interests and felt that they did little to promote the farming community. The worst dispute between them and the producers took place within Karjakunta, where relations with the member slaughterhouses had not been good. Exports by its strongest member, LSO, had reduced meat deliveries and resulted in outright competition between them. It was the retail cooperatives that came to the rescue of the central society by becoming members and meat suppliers. In the long run, this was not to the liking of the slaughterhouses who, in the ensuing struggle, left Karjakunta and in 1936 founded a new central society, *Tuottajain Lihakeskuskunta* (Meat Producers' Central Society, TLK).

TLK tried to maintain a system of strict territories and forbade internal competition. Its purpose was to maintain a good price level on the home market by exporting. Members were allowed to continue their own exports. The

central society was not permitted to acquire its own industrial facilities or buy from cooperative societies or private traders. TLK soon faced the same problems as Karjakunta. The slaughterhouses only delivered what they were unable to sell elsewhere and there were also territorial disputes.

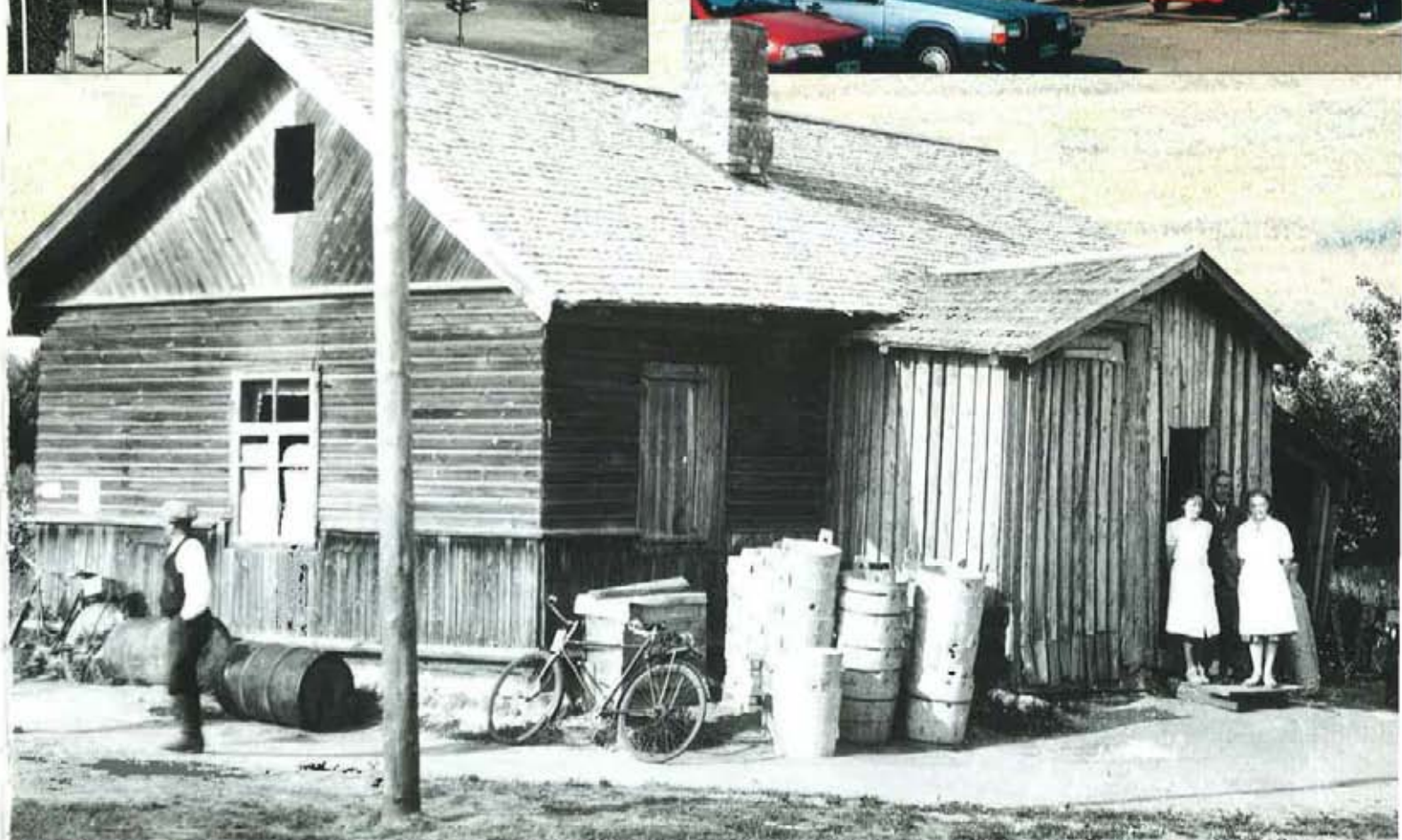
Karjakunta considered competition in meat sourcing benefited the producers. It freely pushed into areas of surplus meat production, successfully keeping settlement prices irritatingly high in the opinion of the slaughterhouses. This worsened the war between fraternal Pellervo companies. In 1939 the share of slaughterhouses of the meat coming onto the market was almost a third and Karjakunta's 15 per cent. Relations worsened when Karjakunta realised that the slaughterhouses were using the state to end disunity in the fatstock trade on their own terms.

Original solutions have always characterised the meat sector: the livestock selling cooperatives had largely been organised on the initiative of local farmers and their central society had been established without Pellervo approval. Now the strong but numerically few cooperative slaughterhouses reacted in much the same way as the workers' cooperative societies in SOK some twenty years earlier. The establishment of TLK gave a new interpretation to the meaning of Pellervo cooperation. The slaughterhouses considered that it was more in the farmers' interests to let cooperative unity take a backseat rather than be forced to depend on the consumer-oriented SOK societies.

All attempts at mediation by the Pellervo Society failed. The Society's position vis-à-vis the growing central societies had been weakening for some time already. It tried again through agreements on the division of functions to bring about harmony between the central societies, and especially between the retail and producer cooperatives, but in vain. As late as 1943 the Society set-up a committee to consider how to end dissension and competition within the cooperative movement. The aim was to reverse the power relations of the central societies and Pellervo, but even this came to nothing.



## COOPERATIVE STORES – FROM VILLAGE SHOP TO MODERN MARKETS





# MTK TAKES THE INITIATIVE

## Guaranteeing the target prices

**A**fter the second world war the Central Union of Agricultural Producers MTK inherited the mantle of the Pellervo Society's power and authority. This was due to the growth of the labour market organisations into mass movements and their new and important role in the postwar system of collective bargaining.

"In order for MTK to work more effectively in the interests of agriculture, it needs the support of commercial organisations such as these. It can call on their support in all aspects of economic policy, such as prices, exports and many other things. It is difficult to organise united support if we do not have a united system." This is how MTK justified its attempt to further concentrate the market impact of agricultural producers in the farmer-owned, cooperative marketing organisations. Pellervo resigned itself to watch passively as MTK rose to become the new spokesman for farmer owners alongside the companies' official administrative bodies. This also concerned an old Pellervo aim of reducing costs by eliminating middlemen. Competition was seen as leading to duplication in sourcing and distributing organisations, paid for by the farmers in lower producer prices and the consumers in higher retail prices.

MTK's goal was to ensure a favourable growth in farm incomes, and the best way to achieve this

was within the framework of the national agricultural policy. With the end to wartime regulations in 1956, producer prices were reduced in accordance with the Act on Agricultural Incomes. Since 1968 prices were agreed at negotiations between the government and MTK. Thanks to this system, agricultural produce prices remained independent of world market prices. The result was a combination of the domestic market price level and agricultural subsidies.

To ensure that the agreed producer prices were paid, farmers needed their own companies. When the farmers' instructed these to pay producer prices, the rest of industry had to follow suit in order to guarantee their own supplies of raw materials. This meant that Pellervo companies had to have sufficient clout in the markets. To obtain producer prices, the companies supported a policy of agricultural protectionism and export subsidies, thus preventing the free importation of agricultural surpluses from the rest of the world. Import licenses were granted only when there was a domestic shortage of raw materials or producer prices were exceeded. Export licences were granted when producer prices were not achieved. MTK, Pellervo companies and the food industry in general did everything in their power to influence the authorities. Most foreign trade and competition policy decisions were favourable to Pellervo. Pellervo even managed to countermand the view of the 1950s' cartel committee that producer cooperatives came within the framework of cartel



# COOPERATIVE HOTELS AND RESTAURANTS



The Helsinki cooperative society Elanto opened its first café at the beginning of the century. Nowadays the cooperatives operate chains of hotels and restaurants throughout the country with considerable market shares.



legislation on the grounds that "The purpose of the cooperatives was not to make a profit, but to ensure a wage for the work performed by farmers."

## Inner and outer circle companies

MTK did not consider SOK and the retail societies as genuine producers' companies, because as consumers' organisations they did not promote the interests of producers. In the fatstock trade dispute, TLK and the local cooperative slaughterhouses received MTK's support against Karjakunta. In the dispute over the division of functions between Hankkija and SOK, MTK supported Hankkija. One could say that the cooperative slaughterhouses and TLK, the cooperative dairies and Valio, Munakunta, and Metsäliitto belonged to Pellervo's inner circle and received marketing organisation status. In the next circle were the credit societies, insurance associations and Hankkija. And in the outer circle were SOK and Karjakunta and the cooperative societies that owned them.

In principle, the goal of the producer cooperatives was a one hundred per cent share of the market. For example, the cooperative slaughterhouse group intended to be the sole organisation for meat supplies. This would have given the farmers the opportunity to effectively control the price level. Similarly, Metsäliitto's intention was to be the sole supplier of wood to industry. On the other hand, competition was allowed between suppliers of goods and services to farmers as this was in their interest. In addition, the rural presence in service cooperatives declined in proportion to the changing demographic structure of society as a whole. The position of the service cooperatives was also affected by the operations of the savings banks and the Aura (later Tapiola) Insurance Company. Pellervo people occupied leading positions in these companies.

Pellervo's plans for concentration culminated in the early 1970s with the agribusiness plan, the goal of which was one conglomerate created from the merger of numerous central societies. Though

unrealised, the plan aimed at using minimal capital resources more effectively, eliminating territorial disputes, reducing costs and strengthening the bargaining position.

The power of the producers' movement is evidenced by the stronger position of farmer managers on the boards of Pellervo companies after the war. Following the Swedish model, the supervisory boards also appointed farmer members as directors. The new role of farmers using their voice as owners came from their close contact with MTK. In turn, MTK's influence stemmed from its personal contacts with company managers and officials, and its say in the selection of officials and managers in the central societies. The same people were often elected to both MTK and the companies. Company directors sat on the same agricultural produce committees as MTK representatives.

The leaders of MTK also spoke in the name of the farmer-owners. Veikko Ihamuotila, chairman of MTK from 1955 to 1975, was elected chairman of the councils of representatives of the Pellervo Society and Metsäliitto. His successor, Heikki Haavisto, chairman from 1976 to 1993, continues to lead the Pellervo Society. In addition he was for some years chairman of Metsäliitto's supervisory board and vice chairman of OKO's supervisory board.

The managing directors of the central societies were often appointed from within the Pellervo group of enterprises. Many of them had agricultural qualifications and experience working for agricultural or state organisations. With the exception of TLK, it was not usual for local cooperative leaders to rise to managerial positions in the central societies before the 1980s.

The Pellervo network, which embraced politicians as well as the leaders of producer organisations and companies, extended from one company to another and into society as a whole. The most powerful elected officials were those with positions in Pellervo companies, MTK and political parties. A knowledge of agricultural, income and foreign trade policies was imperative. In order to manage their affairs, central societies required close



relations with MTK and the government. In actual fact, the real power in Pellervo enterprises was exercised by managing directors, senior elected officials and chairmen of the producer organisations.

MTK placed at the disposal of the Pellervo movement not only its negotiating skills and leaders, but also its organisational might. Using the power of its nationwide network, MTK began organising the farmers into what it considered to be “genuine” producers’ cooperatives. Thanks to the rush to join, membership increased rapidly and in 1947 *Osuuskunta Metsäliitto* (**Metsäliitto**) was established. By 1949 the company had over 52 000 members. A similar rush took place in the fatstock trade supported by TLK’s cooperative slaughterhouses, more of them were founded and strict loyalty demanded from the farmers. Support for TLK and the cooperative slaughterhouses inevitably led to a confrontation with Karjakunta. MTK also supported the troubled egg business after the war by piloting producers into a commercial organisation. In 1955 the producers deposed the retail societies as the main owners of Munakunta. In its membership drive, Munakunta received MTK support, with the result that producer prices were stabilised.

In distribution, Hankkija was totally dependent on the retail cooperatives. By the turn of the 1970s, their power was limited by the special agricultural cooperatives Hankkija set-up as its owners. Hankkija built up its own distribution network parallel to that of the retail cooperatives. The latter posed an acute problem within Pellervo, because prominent farmer managers within them considered nonsensical the idea that they promoted the interests of consumers over those of producers.

## The fight for market shares

It proved difficult to implement the national strategies of several market groupings among freedom-loving farmers and the local cooperative societies they controlled. To MTK, Pellervo and the central societies, the aim of increasing market shares was perfectly logical. Valio was living proof of

this as it had increased its share of the milk market from under 80 per cent in the 1940s to over 90 per cent by the 1970s.

Collaboration between Valio and the cooperative dairies intensified. Through a system of central invoicing introduced in 1958, Valio was able to balance the settlement prices in favour of those dairies producing less profitably. In 1974 Valio’s members gave it the right to control dairy production. It also continuously arranged mergers between dairies. Thanks to its successful business operations, the company managed to keep producer prices steady and maintain a strong position in negotiating with the government and the trade.

Although Munakunta expanded, it never managed to obtain the same high share of the market as Valio. The same was true for the TLK group, although it had invested heavily and rapidly expanded its production facilities. Due to the seasonal nature of the slaughtering business, prices fluctuated violently and the market was swamped during periods of overproduction. For the slaughterhouses, however, it was vital that prices remained stable. They were obliged to accept livestock deliveries at all times, but the buyers took advantage of these variations in prices. Price differences motivated producers to change partners, which is what caused the dispute within the TLK group. Efforts to even out meat deliveries included refrigeration, propaganda, seasonal price differentiation, agreements on meat exports and imports, sale on approval, and sliding prices downwards to the expected producer price.

TLK’s problem was guaranteeing supplies of meat and it became the dumping ground for its members’ surpluses. Either there was too much meat or no commitment concerning regular deliveries. In addition, the slaughterhouses complained about TLK’s ability to pay and even forced the managing director to countersign their bills of exchange. In a way, the line pursued by the slaughterhouses was realised when TLK failed to develop into a strong central society like Valio. Both TLK’s managing director and MTK would have liked a stronger central society. By the end of the 1950s, TLK’s market share was under 50 per



# SLAUGHTERHOUSES



The LSO cooperative slaughterhouse was exporting bacon to Great Britain in the 1920s.

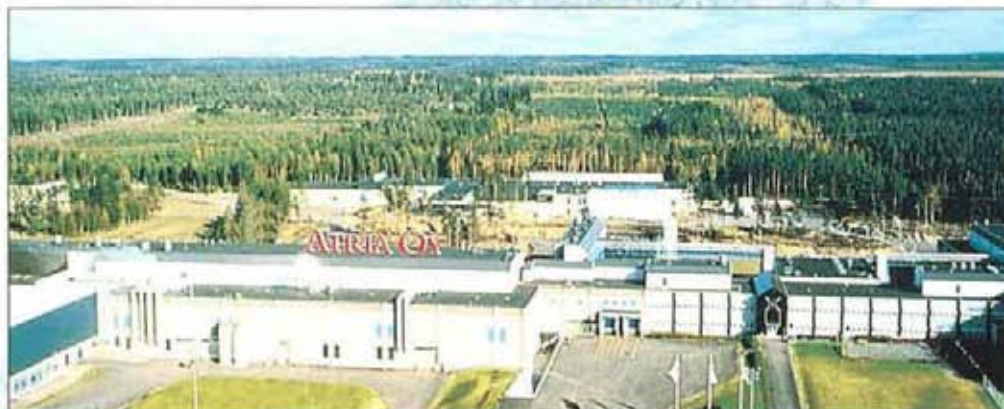
The inexpensive link sausage was already popular in the 1920s.



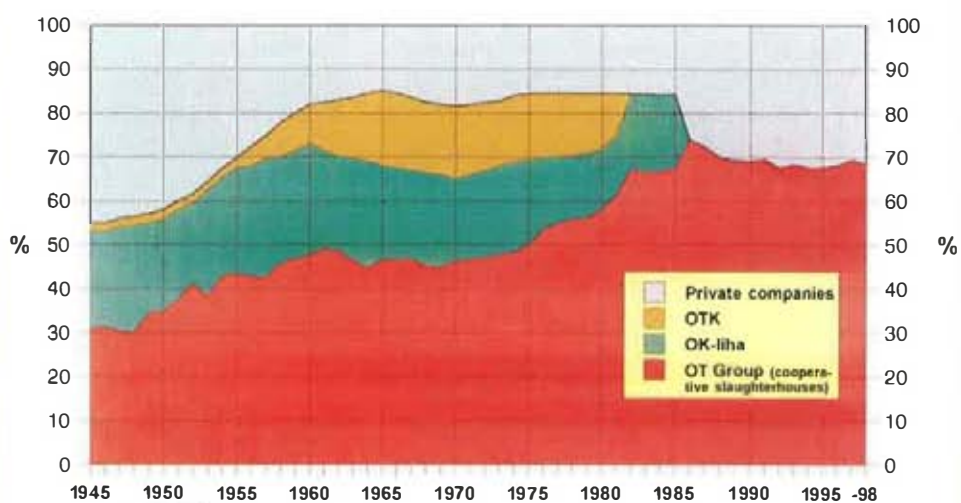
Convenience and fast foods are the most rapidly expanding branches in the food industry. Consumer demand for hamburgers has grown extremely quickly over the past four years.



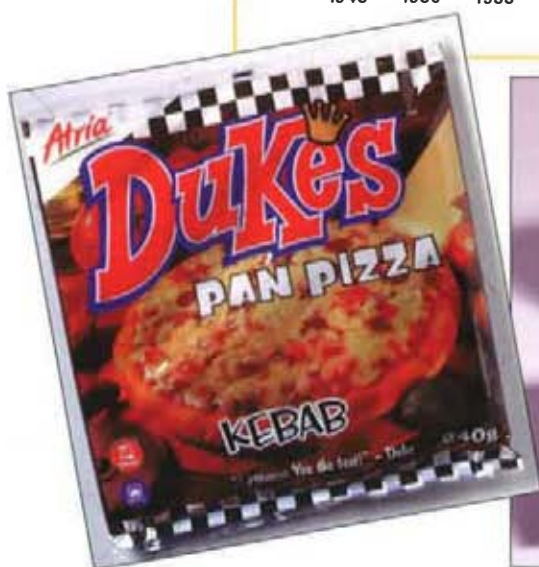
Atria's Nurmo meat processing plant in the 1990s.



Market shares in fatstock procurement from farms, 1945-98



Source: Food and Farm Facts Ltd





cent and twenty years later even lower. The retail society-owned Karjakunta's share of the meat market was over 20 per cent in the early 1960s, after which it fell slightly. In addition, the retail societies also sold meat they had purchased directly from other suppliers.

TLK's low market share led in the 1970s and 80s to a series of costly company purchases carried through by management with the moral support of MTK and the financial backing of the slaughterhouses. This established a new principle as the central society changed from a marketing organisation into an industrial enterprise, although for reasons of competition this had not been the original intention of the founders. Member deliveries to the central society were now sufficient and regular. The ultimate reason for the take-overs was that the farmers did not work closely enough with TLK's slaughterhouses but traded with outsiders. An important part of the sourcing advantage gained through take-overs evaporated once the farmers changed partners. As the trade, especially the private Kesko and Tuko groups, had no desire to see a "meat Valio", it began to buy from non-TLK companies.

In order to strengthen internal cohesion, the idea of a new organisation model was mooted within TLK in which all the cooperative slaughterhouses were merged into one company. However, this joint TLK-MTK idea found no response among the slaughterhouses.

Despite all the problems in the meat trade, such as slaughterhouse in-fighting, territorial disputes and bypassing TLK, agreements were always reached and neither was the group concept as a whole questioned. A merger was a better solution than bankruptcy in solving the problem of slaughterhouse unprofitability. Through MTK, invaluable contacts were established with the government and Soviet trading companies. Cooperation favoured small producers as fatstock animals were collected from even small and distant farms despite the fact that this was seldom worthwhile.

With the purchase of Karjakunta (now called Keskuskunta OK-liha, OK Meat) from the retail

cooperative societies by the TLK Group in 1985, the Pellervo meat industry finally split into two camps. The ultimate reason for the purchase was SOK's efforts to modernise its business idea and improve profitability by relinquishing its own industry. The capital required for investments in OK Meat would otherwise have been difficult to raise. Another reason was the irksome duty of the societies to buy company-made products. Actually, another outside buyer for OK Meat had been considered, the Finnish sugar company Suomen Sokeri, and immediately they heard about it MTK and TLK asked for extra time to consider their bid, which was the one ultimately accepted.

With the purchase of OK Meat, the theoretical market share of the TLK Group rose to over 80 per cent. Although outsiders feared that a meat Valio had in fact been created, no such thing materialised. The trade bought from other companies and producers changed allegiances. This was no surprise to TLK as the same thing had happened before after a major take-over. Even so it accounted for almost 75 per cent of meat procurements.

## The consumer cooperatives in crisis

Although outwardly the Finnish cooperative movement grew after the second world war, inwardly a crisis was slowly fomenting. Even the powerful Hankkija was wrought with dilemmas. As profitable performance continued, the managers of member societies demanded dividend payments and improved services. As inflation had gnawed away at Hankkija's huge reserves, the company had amassed huge debts by the end of the 1940s, and this situation only continued to worsen.

The basic problem facing SOK and its member societies was their slowness in reacting to the tremendous structural changes that had occurred in Finnish society. Both SOK and Hankkija were forced to bale out their unprofitable members. By the end of the 1960s, SOK's balance sheet was in



the red for the first time, a situation that recurred in the years to come. The crisis in the Pellervo cooperative movement was personified in the bitter struggle between Hankkija and SOK, which ultimately led to a complete breach at the end of the 1960s.

The former division of functions between the central societies no longer held true. Hankkija believed that SOK intended to seize power in the company through the retail societies, which were also Hankkija's owners and outlets. In this struggle, Hankkija received support from MTK whose senior officials had links with its management. Hankkija tried to establish a direct distribution network to the farms independently of the cooperative societies. To counter the feared coup, farmers set up tactical cooperative societies under the protection of Hankkija and MTK, which received membership and voting rights in the company. All attempts at conciliation failed. When in 1968 SOK bought its own agricultural wholesale company, the societies gradually took their business away from Hankkija. They in turn were replaced by Hankkija's agricultural cooperative societies and sales network. This proved to be an expensive operation with the result that Hankkija became even more indebted and structurally unprofitable. In this uncertain situation even SOK had to rethink its business strategies.

By the early 1980s, SOK and its member cooperatives were in deep crisis, financially and spiritually. They consumed their energies in the struggle for market shares, the meaning of membership became blurred, and unremunerative operations led to harsh restructuring measures in 1983. Most of the local societies were merged into regional societies, unprofitable ones wound up, the central organisation downsized and the division of functions redefined. Most of its own industry was closed down and collaboration with the E movement, the former progressive workers' cooperatives, intensified. Even member relations were reformed with the introduction of the customer-owner concept.

The 1983 solution to the old dispute in the fatstock trade pointed the way to a solution for

the agribusiness. In 1988, SOK and Hankkija established on a fifty-fifty basis *Hankkija-Maatalous Oy* (**Hankkija Agriculture Ltd**), to which both companies transferred their operations. The shift in emphasis in Hankkija's agricultural trade towards the construction industry had also alienated it from its roots and members. In 1985, Hankkija had purchased Rakennustoimisto A. Puolimatka Oy, one of the largest building companies in the country, with the idea of recouping its losses. The economic difficulties that had plagued the agribusiness from the 1960s onwards, included indebtedness, the internecine trade war with SOK and a number of erroneous business decisions. Furthermore, the building of its own service network proved too expensive. Hankkija's decision to partially relinquish its agricultural supplies trade was historic, because it was just to remove this deficiency at the beginning of the century that the company had been established in the first place.

## Metsäliitto expands

Metsäliitto, which had acquired its first mechanical wood processing factories in the late 1940s, made its breakthrough in chemical wood processing in the 1950s. The following decades were devoted to expanding capacity. Its core idea was that the best way to guarantee stumpage was through new technologies and modern plants. The company's growth could be seen in both the level of processing and timber procurement. Its purchases in 1950 were half-a-million, in 1965 2.7 million and in 1980 7.1 million cubic metres, with its share of commercial logging growing from 2.7 to almost 15 per cent over the same period.

Its production plants enabled Metsäliitto to join the paper, board and pulp sales organisations and the Finnish Forest Industries Federation. During the period of licensed investments Metsäliitto entered the circle where each company received a permit in turn. Within forest industry circles, Metsäliitto was considered a troublemaker

# MUNAKUNTA



In the old days, it was the farmer's wife who looked after the chickens and the sale of eggs was her sole source of income. Many of the early egg cooperatives were set up by women.

Eggs being inspected in the company's warehouse in the 1920s. Quality control was extended to the farms. Munakunta's advisory work ranged from poultry management to establishing egg selling cooperatives. The quantities involved were often very small, often only a basket-full. Finnish egg exports carried a government control stamp.





Egg production in the 1990s requires advanced machinery as Munakunta's packing plant handles 120 000 eggs an hour. Some chicken farms, however, have reverted to the former free-range system.





comparable to MTK because it forced up the price of wood. In the national negotiations for a recommended price these two represented the sellers' side. Neither did Metsäliitto's aim of centralising private forest supplies please the other companies, which is why they never stopped their own wood procurements.

## Restructuring the credit societies and insurance associations

The key question for cooperative companies providing financing services was how to adjust to structural changes in society and developments in the banking and insurance sectors. Insurance companies began offering a full range of policies, whereas the insurance associations specialised in fire and livestock insurance.

During and after the second world war, the credit societies had provided nearly all the reconstruction loans and mortgages for ex-servicemen and Karelian evacuees. Although in the mid-1960s the cooperative banking movement had followed the migrating population to the towns, it was still mainly in the business of offering credit to the farming community. OKO and the credit societies took an increasingly important role in financing Pellervo enterprises. The state, however, remained an important financier and state loans accounted for as much as 18 per cent of all credit granted by the societies in the 1960s. About 80 per cent of their capital requirement came from deposits. Credit societies accounted for about 20 per cent of total funds on deposit during the 1960s and 70s. It was at this time that the change in the bank law made it possible to convert the credit societies into cooperative banks.

The credit societies faced a more serious crisis in the mid-1960s when they incurred heavy losses resulting from imprudent decisions. OKO's management was replaced and it virtually came under the control of the Bank of Finland. Another result of the crisis was that local bank managers increased their power in OKO.

The insurance associations adjusted to changed conditions more slowly. It was not until the 1970s that services were diversified, but even then entry into the towns remained closed for some time. The societies' operations had stagnated after the war and their market share had fallen continuously. The early 1970s, however, was a time of regrouping and resurgence. The Swedish-speaking insurance associations joined the movement and the Vakava and Kekri companies merged.

As Vakava had still not received permission from the authorities for statutory insurance it cooperated with commercial insurers. The decades-old aim of a merger between Vakava and Sampsa finally succeeded in 1981. Known as Lähivakuutus Keskinäisen Yhtiö since 1983, Vakava-Sampsa carried over 90 per cent of the insurance associations into the field of reinsurance. At long last the 1917 goal of combining the fire insurance associations' reinsurance operations became true.

## The capital question

Pellervo enterprises were continuously faced with the problem of solvency as they pursued expansive corporate strategies. When necessary, market shares were even increased at the expense of profitability. And the accumulation of capital was intimately tied up with profitability, because the members were usually unwilling to approve an increase in share capital.

Rapid inflation in the 1940s had eaten into share capital and hard-earned reserves, so it was necessary to increase them. The cooperative dairies and slaughterhouses, for instance, retained part of the settlement price as share capital or member loans that could be later converted into share capital. Capital shortage became a permanent problem in Hankkija, and this was only worsened by unremunerative and unprofitable operations. Pellervo enterprises were forced to depend on outside capital. As real interest rates until the 1980s were negative, borrowing was favourable. The

commercial and savings banks, as well as OKO and the credit societies supplied loans.

## **The importance of know-how in trading with the Soviets**

Finnish food exports to the West were hindered by overproduction in the industrialised countries and obstacles imposed by the EEC's agricultural policy. To compensate for this, Pellervo enterprises increased their exports to the USSR, a process assisted by the failure of Soviet agricultural policies.

Finnish-Soviet trade was bilateral and based on agreements drawn up between the governments every five years. The top managers of MTK and Pellervo enterprises occupied key positions in the organisation responsible for this trade and had important personal contacts among Finnish officials and politicians, as well as Soviet buyers. Pellervo companies like TLK became skilled lobbyists.

The promotion of exports to the Soviets began at the highest level, with President Urho Kekkonen being particularly active from the 1960s onwards. Trade was an essential part of

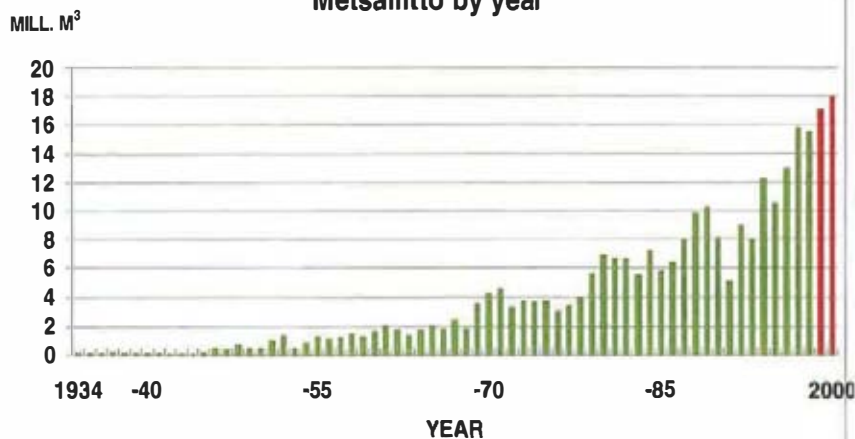
Finnish-Soviet relations. If Finnish exporters used the president as their promoter, he in turn used them to build up relations with the eastern neighbour. Selling Finnish surplus food to the Soviets virtually became an annual routine for the president, and industrial leaders learned the importance of keeping him well informed. On the occasion of Prime Minister Nikita Khrushchev's 70th birthday in April 1964, Kekkonen managed to negotiate an agreement on the export of agricultural produce to the Soviet Union in excess of the already agreed quotas. The suggestion had come from the leaders of the Agrarian Party via the cabinet in order to prevent the collapse of producer prices. Pellervo's key contact to the president was MTK's chairman Veikko Ihamuotila who was an old personal friend.

Another important influencer was Ahti Karjalainen, chairman of the Finnish-Soviet Commission on Economic Cooperation established in 1967 and a minister in numerous governments. The chairmen of MTK served on the Commission and the general managers of Pellervo on its working group. This centralisation of exports furthered the aim of concentrating Pellervo cooperation.

# METSÄLIITTO



**WOOD PURCHASES FROM PRIVATE FORESTS**  
Metsäliitto by year



Wood is an essential element in the interiors of Finnish churches. Paijala Chapel, Tuusula.

In turnover, the Metsäliitto Group is now the largest producer-owned cooperative in Europe. Year by year Metsäliitto has increased wood purchases from its member owners.





Saima parquet flooring at  
Metsäliitto's headquarters.



Magazines printed  
on Kirkniemi's  
Galerie Fine paper.

# THE MILESTONES OF INTEGRATION

## Supranational competition

“**T**he Pellervo corporate culture has for long been one of preservation. Matters have proceeded on an even track without any great changes. So long as the economic, as well as the spiritual and political position of the ordinary members remained strong, it was possible to maintain an easy-going corporate culture which allowed poor performance among administrators and staff alike.” Thus spoke Heikki Haavisto, chairman of the Pellervo Society’s council of representatives, at the end of 1987 when the first signs of radical changes in the operating environment of Pellervo enterprises appeared on the horizon. Haavisto went on to become foreign minister in the 1990s and Finland’s chief EU negotiator. These changes meant the end to regulation in the banking and food sectors and their exposure to free competition.

Old doctrines were of no avail in helping Pellervo companies survive in the new environment. Such questions as product development, marketing, internationalisation, added value, inter-cooperative synergy, management and organisation, capital servicing, ownership and administrative abilities required urgent and serious consideration. Free trade took over, capitalism was triumphing over socialism, and on the home front political power was passing from the Agrarian

Union (now the Centre Party) to the Social Democratic and Conservative parties.

Pressure on the Pellervo-dominated food industry increased in legislation and political dialogue. In 1988 the government repealed the Price Control Act, which had regulated the retail prices of food, and similarly tightened up legislation concerning competition. This was a rather paradoxical situation for Pellervo. The cooperative movement’s stand a century earlier had been to free farmers from the grip of the cartels by concentrating their market potential and centralising supplies. Now the rest of society felt it was at the mercy of Pellervo cartels.

Consumers did not feel that their interests were considered uppermost in production. Wide media coverage was given to the dominant market positions of Valio and TLK. Another criticism levied at the cooperatives was that, during a period when market conditions were easy-going, they made the consumers pay for their inefficient and costly operations through higher prices. The government also considered relaxing import controls.

The changes in mood and values during the boom years also worked against the idea of cooperation. Individualism was stressed at the expense of collectivism. Amassing profits and cornering markets were the hallmarks of the casino years, and when the overheated economy exploded in 1990–91 Finland plunged into an unbelievably deep recession. Trade with the

Soviets collapsed, GDP plummeted, the banks were in deep water and company bankruptcies proliferated. In January 1995 Finland became a member of the European Union, after which the food industry's protective shield was removed in favour of supranational directives.

The Pellervo groupings could not withstand all these changes. The cooperative slaughterhouses abolished TLK in 1991, Hankkija went bankrupt the following year, SOK resigned from the Pellervo Society, Valio's network disintegrated in 1994 and the cooperative banks split into two groups in 1997. The position of the producer organisations within Pellervo radically changed and became the object of critical scrutiny.

## The Pellervo Society awakens

Due to the changed circumstances, the Pellervo Society advanced the new idea that the initiative in corporate strategy should be in the hands of company management, not agricultural organisations. Following the removal of protective structures, rural political power was no longer sufficient to support the companies, so they had to accept responsibility for themselves and learn to play by the rules of the free market. MTK's twin goals of a national agricultural policy and the concentration of Pellervo-oriented marketing power collapsed.

As fears grew within the Society, especially after the collapse of Hankkija, concerning the ability and resolution of owners to ensure the successful management of their enterprises, Pellervo began to propagate the idea of strong, enlightened and responsible ownership. Signs of the new spirit could be seen when farmer owners became majorities on the boards of directors of the Pellervo central societies and leading farmers in the provinces became their chairmen. Similarly, the double role of administrators as MTK and Pellervo company directors diminished significantly. On the other hand, the provincial and farming leaders on the supervisory boards of service companies like SOK and OKO were

forced to make room for academically qualified people in the 1990s.

Even during the crisis years, most general managers continued to be chosen from within the Pellervo camp. Nevertheless outside recruiting became increasingly important. In 1992 Valio's new CEO, Matti Kavetvuo, was appointed with the help of consultants. Kavetvuo had previously managed a major Finnish pharmaceutical company and had no background in the Pellervo movement. New channels of recruitment were also emphasised in the local cooperatives. Twice in succession, managing directors of local cooperative banks were appointed CEO of OKO. In 1988 the retail cooperative societies promoted one of their managing directors to the position of CEO of SOK.

## Preparing for the European Union

As early as the end of the 1980s Valio realised the threat of changes in trading policy, when it discussed progress in the GATT negotiations and the timetable for the rapprochement between EFTA and the EU. It recognised that Valio's cost structure could not withstand open market conditions. Costs had to be reduced and operations rationalised. Furthermore, production control had to be improved, internal competition eliminated, and greater attention paid to pricing, product development, scale benefits and the company's negotiating position. However, structural development plans based either on regional cooperative dairies or a single national company remained unrealised at this stage.

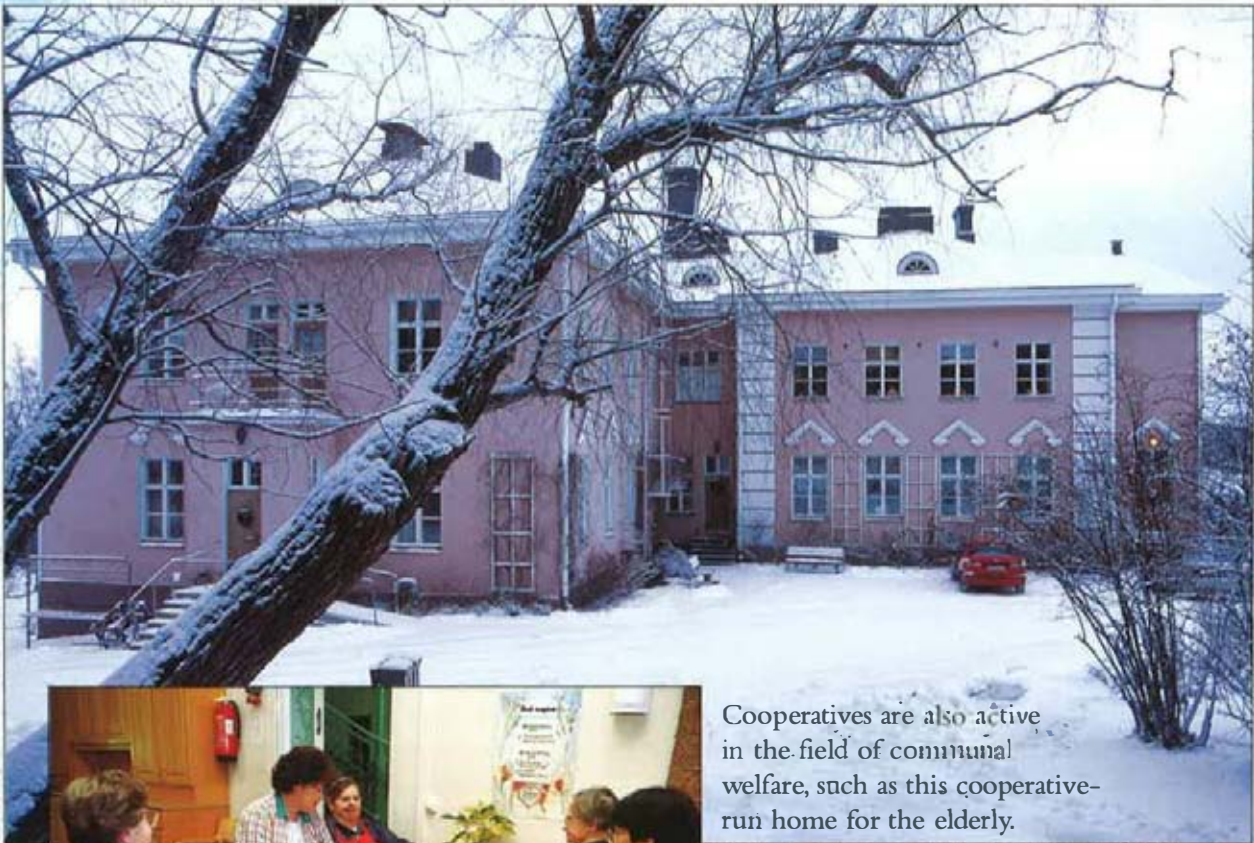
TLK prepared for the future through massive investments, alliances and mergers, and by hiving off the commercial operations of the slaughterhouses. By the 1990s the Pellervo meat industry was in the hands of only three companies. Munakunta concentrated its egg packing operations in one plant in south Finland, the largest and most efficient in Scandinavia. At the end of the 1980s Hankkija adjusted to its new



## NEW WAVE-COOPERATIVES

Finland is experiencing a new wave of cooperatives, with a new one being established almost every day during the 1990s. And as a century ago, Pellervo is offering its support. The Society's new cooperatives project provides a network within which newcomers can seek advice. The Cooperative Institute of the University of Helsinki provides training for cooperators.

In many municipalities heating is provided by an energy cooperative founded by forest owners and using waste wood.



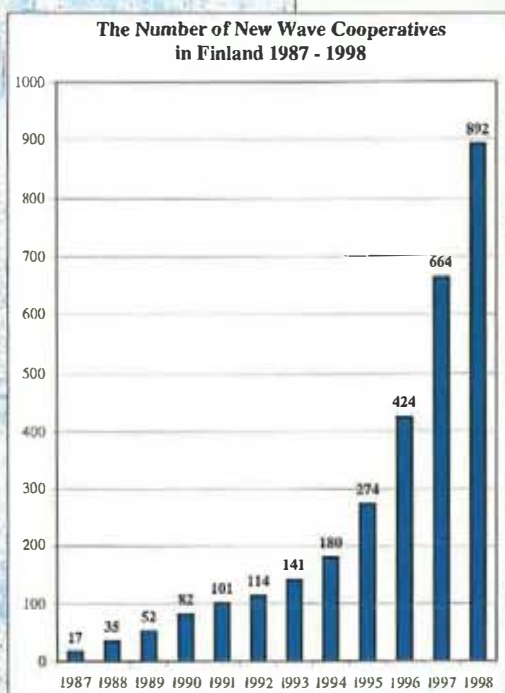
Cooperatives are also active in the field of communal welfare, such as this cooperative-run home for the elderly.





Some 65 translators living in different parts of the country are organised into a cooperative.

The cooperative is also a convenient way for organic food producers to market their produce.



business idea of being an international construction company. Operations were channelled through companies within the newly established Novera Group. The agricultural cooperatives were absorbed into the Central Cooperative Society Hankkija and their members became the individual members of the Cooperative Society Hankkija and via this the owners of the Novera Group. However, this did not help matters and the 1990s' slump gave the final deathblow to the long-troubled company.

The cooperative banking group had to adjust to a deregulated money market and new operating culture. This was evidenced in the rapid expansion of loans, but particularly competition with the local banking group, the savings banks, and their radical new strategies. Among the problems faced were how far they should abstain from retail banking operations and to what extent they should seek top returns through high-risk loans and investments. As the savings banks seized the markets, the pressure within the group became unbearable.

The group, however, received early warning of the dangers of modern banking from the credit losses suffered by one of its over-ambitious members. Group management began to urge a more cautious attitude and strategic thinking. Whereas the savings banks concentrated on investments, OKO continued to emphasise deposits. The group's currency loans remained minimal, it was slower than others in moving into the international arena, and neither did it amass an industrial empire through company take-overs.

A major disaster overtook Finnish banking during the slump. Even for the cooperative banks, the years 1992-94 proved difficult. In 1993 credit losses amounted to FIM 3.7 billion, with the main brunt falling on the urban banks. Thanks to the guarantee fund, the group managed to sustain the losses incurred by members but, like the other banks, it too had to be bailed by the state. As the savings banks went under so the cooperative banks gained the upper hand. They even managed to share the spoils of Suomen Säästöpankki Oy, the Finnish Savings Bank, when it was taken over by the state.

The strategies pursued by the local insurance associations were very similar to those of the cooperative banks. They refrained from overseas reinsurance, which had proved calamitous for many other Finnish insurance companies. The emphasis remained on farm and home insurance, but the range of policies was however widened. The group's market share rose to six per cent in the 1990s, but it was still unable to gain a foothold in the larger towns.

Frantic mergers among the survivors shook the sector in which Metsäliitto operated. Metsäliitto's rise since the mid-1980s culminated in its becoming one of the top three forest-industry companies in Finland. This rise was based on company purchases, its own and joint investments, and the forging of alliances. Among others, it purchased a number of small, traditional family companies.

Despite all these adjustments, the experts were of the opinion that the future of Pellervo food cooperatives in an integrated Europe was not particularly rosy as they were simply not up to standard. For example, the advantage of scale in the dairy industry acted in favour of foreign companies. Pellervo's people-oriented business idea had led to wide ranges but short production series. Valio's brands were unknown abroad and its products were considered as subsidised bulk exports. The same was true for the Pellervo slaughterhouses.

The slaughterhouses began to rationalise by reducing costs and concentrating production in their largest, modern plants. Valio was forced to reconsider its rejected restructuring plans, and scrutinise its administrative costs, investments in overlapping dairies and declining capacity utilisation rate. The company began by shedding labour and making changes to its administrative and marketing organisations. In answer to the Office of Competition's demand for changes in Valio's market predominance, it converted into a limited company in 1992 with the cooperative dairies as shareholders. This enabled it to balance relations between the small and large dairies within the central society.





SOK's first department store in Helsinki was completed in 1952.

For many other Pellervo companies the changes proved more painful. Hankkija went bankrupt. EU membership came as a shock to Munakunta. Although the company was strong, the overproduction inherited from former regulated times and the end to export subsidies had a catastrophic effect. The cooperative banks hit rock bottom, but survived the crisis in better shape than most others. The insurance associations also avoided being shipwrecked.

Metsäliitto had been active on the world market for some time already. Despite the slump in the 1990s, it continued to expand both within the country and to an increasing extent abroad. Foreign investors among its owners set the pace: factories were acquired abroad to ensure the demand for Finnish raw materials and downstream operations. The company refrained from investments that would encourage the use of foreign raw materials. The purchase of companies in Finland strengthened Metsäliitto's position in wood procurement. By the mid-1990s it purchased some 18 million cubic metres of timber, about one-third of the total commercial logging in Finland.

## The crux of competition

Although the government had tightened up competition laws at the end of the 1980s, it was when these were brought into conformity with EU practice that the real blow was struck at Pellervo cooperation. Inter-company price agreements, production restrictions and territorial divisions were forbidden if they did not simultaneously make production and distribution more efficient, encourage technological and economic developments, or if the ensuing benefits did not mainly accrue to the customers or consumers.

The Pellervo idea of cooperatives working together had been in existence for almost a century. In the eyes of the competition authorities, collaboration between the cooperative dairies within Valio amounted to a forbidden horizontal cartel, whereas Pellervo saw it as an economic alliance of milk producers that was also beneficial to the consumers. In the opinion of the Pellervo

Society and cooperative enterprises, too little attention was paid to the special nature of cooperation in the preparation of competition legislation. They wished a cooperative group or central society, its member cooperatives and individual members, to be treated as a group within the meaning of the law.

When this failed, Pellervo enterprises applied to the authorities for a permit exempting horizontal cooperation, but only the service cooperatives were partly successful. The Office of Competition even forbade cooperative banks from price agreements, although they considered that the group should be treated as a single entity. On the other hand, the authorities did consider that agreements over prices and logistics within the S Group (SOK and its member societies and their subsidiaries) as promoting the production and distribution of goods, so long as uniform prices were not binding on the societies and that they were also free to buy from others.

It was the cooperative slaughterhouses, however, that came under the closest scrutiny. The authorities noticed that, despite the dismantling of TLK, cooperation in this sector involved agreements on territories, prices and production. Officials struck at the slaughterhouses but failed to find evidence of lawbreaking. They considered that cross-territorial sourcing, meat importation and producer-price competition were acceptable evidence of genuine competition. In this way supranational competition policy succeeded in destroying cooperation between Pellervo enterprises, thus making illegal the century-old Pellervo ideal of cooperatives working together for the common interest.

Competition legislation also changed the marketing of the Metsäliitto Group's products when the forest companies were forced to abolish their sales associations Finnpap, Finncell and Finnboard.

## Disintegration of the Pellervo concentrations

The dissolution of TLK in 1991 was a harbinger of change. Up till then Pellervo enterprises had

marched steadily, if hesitantly, towards market concentrations. Now they began to disintegrate.

The process of disintegration in TLK began in South Ostrobothnia. The Cooperative Slaughterhouse Itikka considered collaborating with TLK unsuitable during a time of changes in market conditions, competition and trading policy. It felt that territorial divisions were an encumbrance, and that it was impossible to operate profitably in their area as its population was too small and all major towns were excluded. Itikka began to build its own huge meat processing plant even though the TLK group had decided to concentrate all major investments in the metropolitan area. When others in the group decided to follow Itikka's example and break the rules, it marked the end to the system of territorial divisions created in the 1930s.

MTK frowned upon the rule breakers and did everything in its power to stop inter-group competition. After all, TLK had been instrumental to bringing about concentration and coordination among the Pellervo slaughterhouses. It was also the producers' main "weapon" in the meat trade. In the provinces, the MTK-backed general manager of TLK was accused of being dictatorial, but by no means all the farmers were happy with the new situation. They were particularly annoyed with the low prices resulting from inter-slaughterhouse competition. In the end support for Itikka was so strong that the central society was wound up. The end of TLK was reminiscent of the time when the cooperative slaughterhouses resigned from Karjakunta in 1936. The slaughterhouses considered the central society detrimental to their operations. So if the old doctrines proved useless, then new one had to be found.

The next in line to disintegrate was the exemplary Valio. The Office of Competition considered that Valio had a dominating market position and forbade all internal price agreements. Moreover, Valio Ltd's control over production was in effect a cartel and thus contrary to the interests of its customers. In 1993 the dairies decided either to merge their plants with or lease them to Valio Ltd or allow it to market their products. All options were taken up, but of the more than 50

dairies involved, ten concerned with their futures resigned. The so-called Group of Ten took with them some 12 per cent of the milk market, Valio retaining 77 per cent. Within the new structure, the function of the local cooperatives was to become the shareholders of Valio Ltd and suppliers of raw materials.

MTK also took a dim view of the break-up and because it believed in concentration, severely rebuked the Group of Ten. The general feeling within MTK was that there was too much in fighting going on among the farmers' companies. After all, it was not the meaning of the Competition Act that companies annihilate each other through competition.

The next Pellervo concentration to crumble was the cooperative banking group. The numerous, high-performing rural banks were extremely reluctant to bail out the troubled, larger urban banks through the guarantee fund. Neither were they satisfied with the new structure, based on the Dutch Rabobank model, which originally favoured smaller banks. Although the new model gave more power to financially sound banks, it also increased the Cooperative Banking Centre's control over the operations of individual banks in financial difficulties. This was in response to the often-catastrophic consequences of irresponsibility during the casino years and intended to correct the former absence of such a control mechanism.

A sixth of the cooperative banks – accounting for under a tenth of total deposits – reorganised into their own group. The reasons for the split were much the same as with the dairies and slaughterhouses: a centralised system had worked well under the stable conditions of a regulated economy because it had been able to guarantee a favourable operating environment for its members. Caught in the crosscurrents of the market, a company felt cramped and the pressure to go it alone increased.

The estrangement of the SOK cooperatives from the producers' cooperatives was a different kind of process. SOK and the Finnish

Cooperative Union SOKL resigned from the Pellervo Society in the early 1990s. SOK felt that an MTK-dominated Pellervo superstructure was being planned over the cooperative movement. Relations also deteriorated because of differences of opinion over the issue of EU membership. SOK considered Pellervo sided with MTK's "No to the EU" line and had no wish to march under this banner. SOK and its member societies made it clear that they were on the side of the consumers and joined forces with the Cooperative Eka Corporation, the successor to the progressive cooperative movement

## The problems of capital and raw materials

Compared to the years of inflation and regulated interest rates, the new element in cooperative financing was that capital was freely available but real interest rates were rising. Although by the end of the 1980s risk capital was often available at a reasonable price, Pellervo companies could not, however, use it as freely as limited companies. As both the Pellervo Society and MTK frowned on the idea of cooperatives converting into limited companies for fear of losing their cooperative nature, opening the back door to private investors and allowing ownership to pass out of the hands of the farming community, the Society proposed a new system of investment shares.

The idea of investment shares was to create an exchangeable, dividend-bearing security similar to that of a share in a private company, but without the same voting rights. Nevertheless, Pellervo meat companies began converting into limited companies thus gaining a new group of owners from among outside investors. In addition to being members and customers, its producers also became shareholders. The fate of the investment share idea was sealed when the country was hit by the recession.

Membership of the European Union meant momentous changes in the procurement of raw materials for the Pellervo food industry. Target



prices, import protection and export supports became history, even if they had already been curtailed by cutbacks in public spending. This meant that producer and retail prices for Finnish raw materials and food products could not vary substantially from those in the rest of the EU. This and inter-company competition forced raw material settlement prices down to and even under the EU level. Improved competitiveness checked the invasion of foreign foods, helped the export effort and maintained the consumers' preference for home-produced food.

In raw material procurement in the forest sector, the greatest change brought about by EU membership was in the requirement to reform the system of recommended prices that was considered contrary to competition law. In future, price recommendations were to be agreed upon locally between forest owners and individual companies.

## Standing on one's own feet

With the demise of the regulated economy and the coming of open market competition in the early 1990s, the Pellervo Society decided that its enterprises must learn to stand on their own feet. They required viable strategies and a common body to guard their interests now that MTK could no longer fulfil this function.

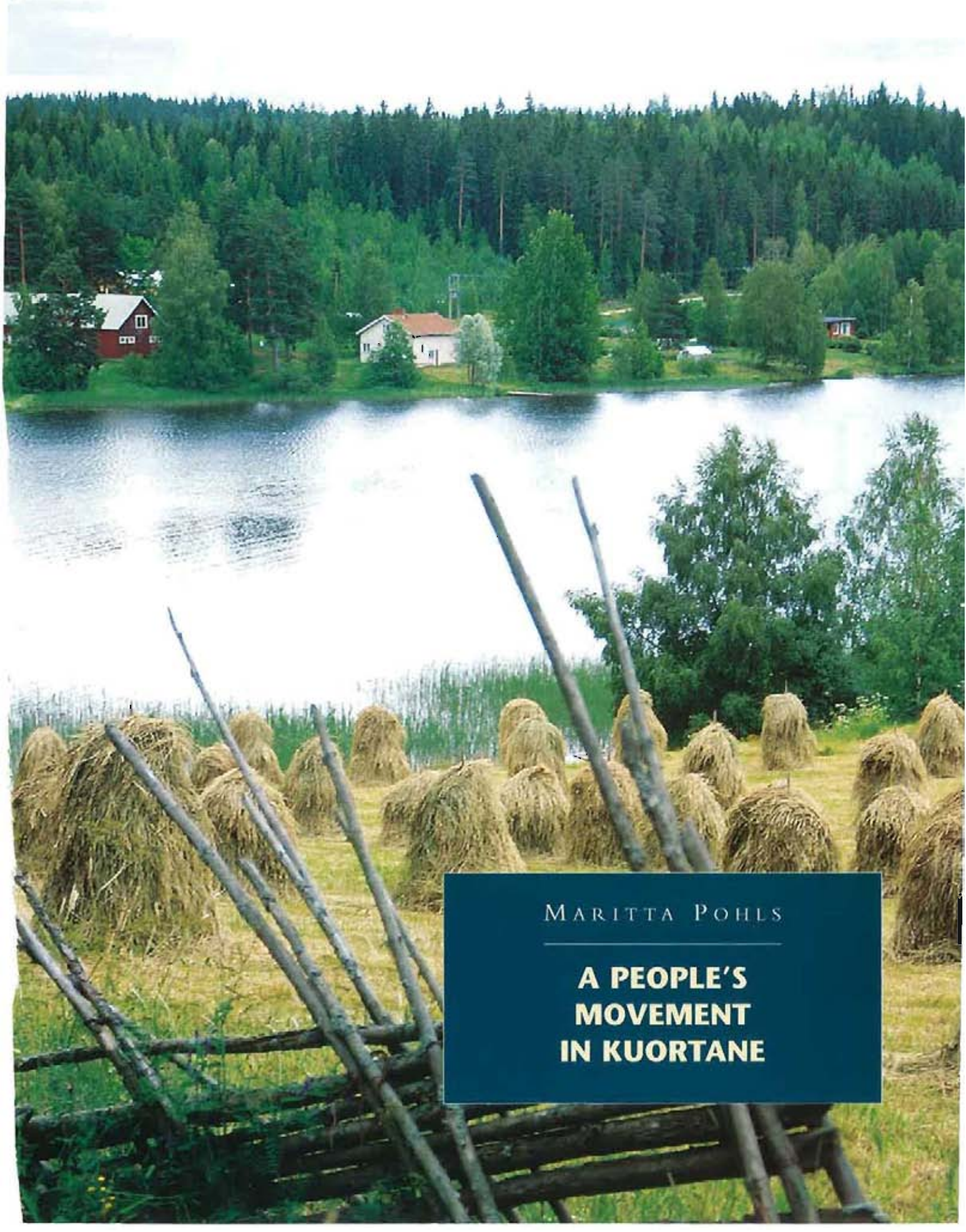
An operations model was conceived based on the idea that there should be a Pellervo market leader in each sector to maintain the price level and a number of smaller Pellervo enterprises competing with special products. If domestic companies did not compete creditably then traders would turn to foreign suppliers using foreign raw materials. EU laws on competition had already rendered sales cartels impossible. The idea was also to justify the break up of nationwide cooperation among member cooperatives. Even more radical was the belief that competition within the cooperative movement was thought not only possible but

also even beneficial. Once the inevitable became a virtue, so the meaning of the market mechanism and competition were revised.

MTK took a totally different stand, as it believed Pellervo enterprises should close their ranks even more tightly around it. There was no question of allowing the fragmentation of rural power, which is what MTK thought would happen if Pellervo got its way. These differences of opinions came to a head when the decentralised dairies began to organise a new body to safeguard their interests, the Finnish Milk Board.

The battle of the Finnish Milk Board was very bitter because it was seen as a precedent with wider repercussions on relations between MTK and Pellervo enterprises. MTK felt that professional managers had invaded their domain. The core problem concerned safeguarding the interests of each sector and arranging social influence so that producers and cooperative society members could organise voluntarily, form alliances, coordinate their interests and still operate independently. MTK, on the other hand, wanted to take charge of planning company strategies and use its special cooperative department to watch over their interests, something Pellervo saw as wrong and outdated. Valio proposed an entirely different solution whereby each sector would look after its own interests as an inter-member project within the Pellervo Society in collaboration with, but not subordinate to MTK.

MTK's resistance hardened once it realised that agricultural lobbying was in great danger of being dissipated. Neither did it want the Pellervo Society coming between itself and the cooperatives. When the Milk Board was being organised, MTK managed to convert dairy managers to its way of thinking, which watered down the whole project in Pellervo's eyes. The Milk Board was seen as an indicator of future operations models. The question revolved around the basic problems of Pellervo cooperation: competition and cooperation, and the power wielded by MTK in Pellervo enterprises.



MARITTA POHLS

**A PEOPLE'S  
MOVEMENT  
IN KUORTANE**



## FIVE PATHS TO COOPERATION

The preceding essays deal with the history of cooperation at the national level, the emergence of the central societies, and the debates that defined the work of cooperatives. Their starting point was the idea that cooperation was organised from the top down, and the Finnish cooperative movement was indeed highly centralised with the central steering organisation, the Pellervo Society, was even being established before the cooperatives themselves. The central societies were also founded from above, while in other countries the movement mostly evolved from local cooperatives.

The trend, however, was not quite so clear-cut. This essay takes another perspective and asks what caused the surge of enthusiasm for cooperatives. The members of the cooperative societies were not marionettes manipulated by elite groups without any will of their own. The social process entails interaction and requires both the will of the individual and a central organisation to channel that will.

The example taken for study is of Kuortane, a rural municipality in western Finland with a population nowadays of about 5000. Cooperation developed at Kuortane in an almost textbook fashion, thanks to its highly homogeneous demographic structure. Consensus and a strong local spirit characterised the municipal administration and other activities.

In some respects, Kuortane may be too perfect

an example of cooperation, but it can also be thought that a place like this, which met the ideal requirements for cooperation, illustrates the main features of the emergence of the movement in Finland. Each locality has its own special history, but there are also shared themes that define the processes whereby production and consumption developed in the countryside.

The background of the founding of cooperatives can be summarised in four themes: economic crisis, nationalism, links with the state, and tradition. From the local perspective, a fifth factor was the Pellervo Society, which originates from the same background. The adoption and establishment of cooperation in local communities resulted from the intermingling of these elements at the end of the 19th century.

### From tar to butter

The relatively strong economic growth of Kuortane in the 19th century was based on two limited resources: field clearing and tar burning, the latter continuing even after the other parishes in the region had ceased making tar. But the age of tar had passed into history. Developments in shipbuilding decreased its demand and economic cycles and trade blockades lowered prices. When the crisis came it was obvious that the main source of income for Kuortane freeholders had dried up and a new one had to be found.



The price of rye, the main 19th century cash crop, and other cereals fell as the result of European imports of cheap grain from America and Russia. The repeal of Finland's grain import duties after the crop failures of the 1860s opened the way for low-cost imports. Finnish grain could not compete, because the growth season was short and the soil nutritionally poorer than the American prairies or the black earth of the Ukraine. Even in other respects, the output of Finland's small farms could not compete on the international grain market.

Faced with this crisis, Finnish freeholders turned to dairy farming in much the same way as those Western European countries with a predominance of small farms. This trend was reinforced by the rise in butter prices on the European market, and also by the invention of refrigeration, the advent of steamships and the opening of ports for winter traffic. Dairy technology was revolutionised by the separator, which reached Finland in the 1880s. Production facilities developed apace with world market demand. The first to be established were the large estate dairies, then came the buying dairies founded by wealthy farmers and traders, and finally came the village dairy companies owned by the local freeholders.

Kuortane followed the general trend and in the mid-1880s a few freeholders and the local storekeeper established a dairy which bought milk from the farms. There were two similar, short-lived ventures in the 1890s, but the owners were forced to admit that machinery bought with limited capital was insufficient for profitable operations. Larger amounts of capital were needed and the commitment of farmers to ensure regular supplies of milk. In 1887 the freeholders established a dairy company, which was quite profitable. The initial debt was soon paid off, a profit was declared and dividends paid in the early 1900s. In 1905 the joint-stock company was converted into a cooperative, which made it possible to expand the number of farms supplying the dairy and obtain capital for improving facilities.

This was not such a major change, as the

company had been much the same as the cooperative. The shares were inexpensive, which allowed ordinary people to become shareholders. The number of shares held was in proportion to the number of cattle owned, which was the same as in the cooperative. Company shareholders now became cooperative society members. The staff carried on in their former positions and the cooperative purchased the company's premises and machinery.

There was a similar trend in the purchasing of consumer goods. When rural retail trade was officially permitted in 1859, country stores appeared in Kuortane. The first store was opened in 1862 to be followed by others in the years to come. As early as the 1880s, freeholders dissatisfied with the prices charged by private stores began establishing their own retail companies. The farmers of Kuortane established one in 1888 that was very similar to the dairy company, even the charter members being the same. The store was able to pay a dividend and opened another outlet during its first year. In 1906 the shareholders converted the company into a cooperative, which duly purchased the premises and stock.

The key to the economic crisis of the time was to develop production and transport technology and to place products on the world market. In the background to the "dairy and store fever" of the 1880s was legislation that improved the opportunities for business and capital accumulation. The days of the barter economy were numbered and society began to change over to the money economy. In order to enjoy improved prosperity, freeholders were gradually forced to tie themselves to the market economy.

The farmers reacted quickly to innovations and changes in trading relations, and looked for profitable solutions. Income from wood sales was invested in a butter dairy, as it promised continuous growth. Small-scale private enterprise was regarded as more secure than the continuous sale of forests, which would have been the easiest solution in the short term. This course appears to have been a sensible one as farmers began to produce butter now that tar was no longer

profitable. This was first done by those who could afford the equipment and facilities, but the next step was to establish joint-stock companies in order to accumulate capital and spread the risks. The third step was a cooperative to which an even larger number of people committed their money and labour. This was how it should be! Or was it? Why didn't the dairy company carry on buying its milk from the farmers, who would thereby have become richer although as shareholders they would have had to share both the gains and losses?

## Pellervo propaganda

The message of a new kind of enterprise came from Helsinki, where the Pellervo Society had been founded in 1899 to promote cooperation. Within a few years the Society had created an efficient, nationwide information network based on advisors. Oral information was still important at the turn of the century, as formal literacy did not guarantee an interest or ability to understand secular printed material.

The Society complemented its advisory work with printed material, such as the *Pellervo* magazine which immediately gained a wide readership. It instructed readers in the principles of cooperation and reported on the spread of cooperation throughout Finland. In the early 1900s, the Society issued a steady stream of manuals and model by-laws, distributed free or at a nominal cost, and also ensured that the press in general reported on cooperative developments. In addition, the Society also began to promote the founding of cooperative societies and enterprises. The first step in this direction was the farmers' societies, through which the Society, in anticipation of cooperative legislation, distributed the operating models for cooperatives.

The freeholders of Kuortane founded their farmers' society in 1902. The payment of nominal dues gave members access to Pellervo's printed matter. Like the other farmers' societies, it also made joint purchases of fertilisers, seeds, machinery

and implements from the outset. And just as Pellervo hoped, the Kuortane farmers' society decided in 1902 to convert the dairy and store companies into cooperatives. The founding of the dairy was also influenced by the availability of state loans for this purpose. These loans were reported in Pellervo and channelled through the Society.

In practice, the cooperative model did not greatly differ from a private company, as both were communal ventures. The essential differences lay in the acquisition of capital and their administration, which in the cooperatives was based on equal participation. At cooperative meetings each member had one vote, whereas in joint-stock companies the number of votes was determined by the number of shares held. The founders of the cooperatives were the owners of quite large farms who could themselves have borne the financial risk of establishing a company. Why then did they establish cooperatives aimed at improving the livelihood of all their members? Why did they not choose to ally themselves with the owners of capital, but relied on local smallholders for their funds? Why did they agree to share control when they could have acted independently in a joint-stock company?

## Scions of the Society for Popular Education

The path that led freeholders into the cooperatives had its origins in the religious movements of the early 19th century. Pietism had strong roots in Kuortane, as the local people sought a personal relationship with God. Many of the founders of the dairy had been raised in Pietist homes, and were often deeply religious. Pietism reshaped the social order maintained by the church and the state by underlining the importance of personal faith. It forged a completely new bond between people of different socio-economic groups. The revivalist movements launched a process within which the stature of both individuals and citizen increased. Pietism, however, mostly affected the parents of the generation which founded the

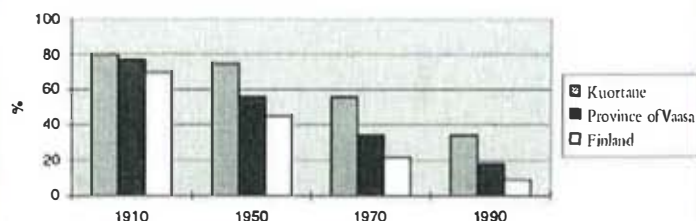


## KUORTANE

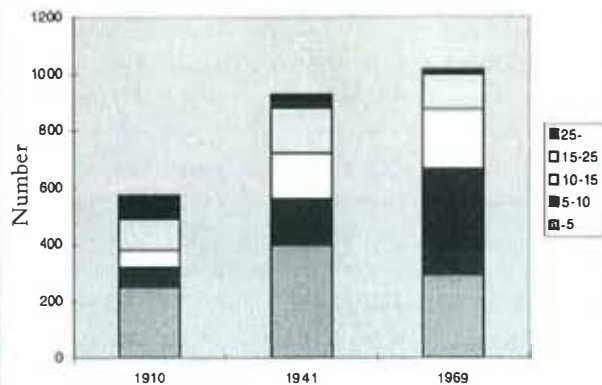
The parish of Kuortane is an area of primary production. It is located in that part of the country that accounts for over half of the milk, 40 per cent of the meat and a third of the eggs produced in Finland.



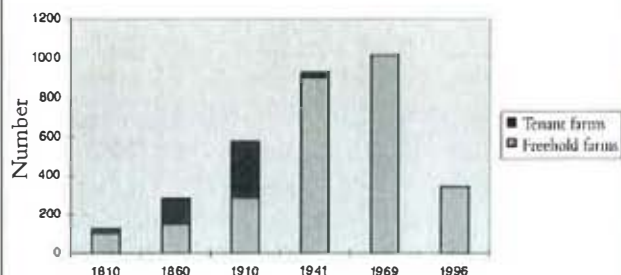
**Share of primary production in the occupational structure of Kuortane, Province of Vaasa and the whole of Finland**



**Farm sizes in Kuortane, 1910, 1941 and 1969 (hectares)**



**Farm types in Kuortane**





cooperatives. Whereas they had sought answers to their spiritual needs through personal conversion, their children were primarily concerned with social issues.

Nationalism was the main social movement to which cooperative members subscribed, and their first contact with it came through the *Kansanvalistusseura*, the Society for Popular Education, founded in Helsinki in 1874. The SPE's mission was to distribute educational literature and organise events to improve the knowledge of the common people. This led to a group of socially "conscious" Kuortane freeholders identifying with and committing themselves to the country's political system. Those who subscribed to the nationalist ideology felt they were "all children of the fatherland". Language became an important issue, and Swedish-speaking civil servants and officials were regarded as the enemy.

A heated struggle was waged over the founding of a primary school at Kuortane. It was supported by the nationalist freeholders and opposed by others on religious grounds, because it was too expensive and ultimately worthless. The supporters first established a private school, and finally in 1885 a municipal upper primary school after the campaigners had convinced the provincial governor to commission it. Although their own schooling had been limited, the freeholders of Kuortane became avid readers. They found support and encouragement for their activities in newspapers writing about issues considered important to the pro-Finnish (Fennoman) intellectuals. These also moulded their readers' attitudes. Literature also became available after the founding of the municipal library in 1869.

Other important nationalist organisations were the temperance and rural youth associations, of which there had been several at Kuortane since the 1880s. These enjoyed varying success, so that when one "waned", another soon took its place. The name of the association was not so important, but they had to pursue some educational purpose like teaching members about current affairs and citizenship. Most importantly were a patriotic spirit, education, temperance and training in manners and

morals. All these activities created a link between the university intellectuals of Helsinki and the upper strata of the "common people". Social classes from the top down joined together in the process of nation building. In this way freeholders gained confidence in collaboration between the intelligentsia and the common people.

The Finnish nationalist movement developed its ideology with reference to the freeholders and not, for instance, the urban bourgeoisie. It defined itself as the *avant-garde* of the Finnish people as a whole, an elite worthy of the trust and support of the common people. It built up an image of an upper class belonging to the people and spreading knowledge in the language of the majority. Education, in turn, gave everyone an opportunity to become part of the upper class.

The freeholders, however, were not passive objects as they had their own interests to safeguard. The new ideological world articulated by the information provided by the intellectuals gave them the means to assume the leadership of their own communities in the wake of the old class system. Even more important was the Municipal Government Act of 1865, which transferred local government from the parish meetings to municipal councils. As voting was now based on the ability to pay taxes, the wealthiest freeholders ruled. Similarly, only the freeholder class was entitled to elect representatives to parliament, and in these elections suffrage was also based on ownership. Cooperation with the upper classes continued within parliament.

As decision-makers and holders of positions of trust, the founders of the cooperatives of Kuortane had organised local government. The chairmen of the municipal boards were frequently active in the dairies, as also were the officials responsible for the upkeep of the roads and bridges. They provided the municipality with a primary school, a public granary, care for the indigent and the sick, a fire service, horse insurance, telephone system and an electrical power station. They called the elections and repurposed the land, offered legal advice and served as jurors.

The cooperatives appealed to the leading,



nationalist-minded freeholders as the Pellervo Society blended perfectly into the ideological context of the old Fennoman organisations. The Society promoted cooperatives as the safeguard of political stability and “national power” in the economy.

Even more importantly the freeholders wished to control the reorganisation of the rural economy, as it had no desire to see their income from milk go elsewhere. Basically, they wished to pay, earn and decide things for themselves. “The cooperative dairymen want to stop all churns from making butter for the gentry. If they want butter, let them buy it from the dairy.” Nor did the farmers want to be dependent on shopkeepers, whether for fertiliser or consumer goods.

Although the egalitarian model of decision making underlined by the Pellervo Society was alien to freeholders accustomed to one based on affluence, they nevertheless chose it as there was



Finland's countless lakes offer the perfect channel for transporting timber.

By the 1950s, the work of lumbermen was eased by the appearance of chainsaws. These and other new products were featured in the magazine *Pellervo*.

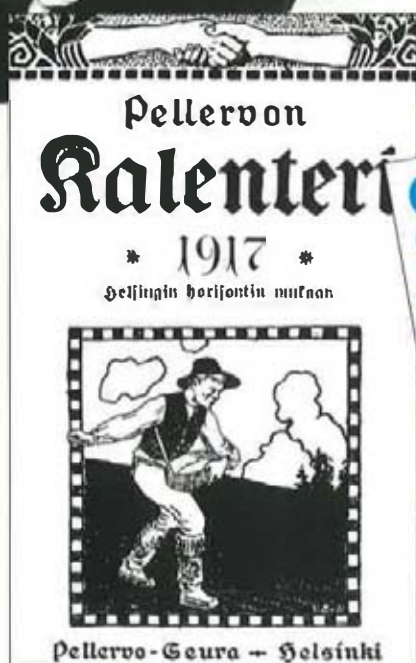
no other alternative. Many of the businesses realised through cooperation had got off to a good start by 1899 when the operating model was first introduced. Although political stability and safeguarding the national economy were important, what most appealed about cooperation to freeholders was the opportunity to decide independently on matters relating to production, trade and capital acquisition, and not be at the mercy of the financiers.

## Mobilising the masses

Freeholders implemented the issues of the “great society” in their own “miniature society”. They were accustomed to opposition, but also to recognition. In any case the personal authority of leading freeholders was not enough to lead to the establishment of cooperatives in the rural



## PELLERVO PUBLICATIONS

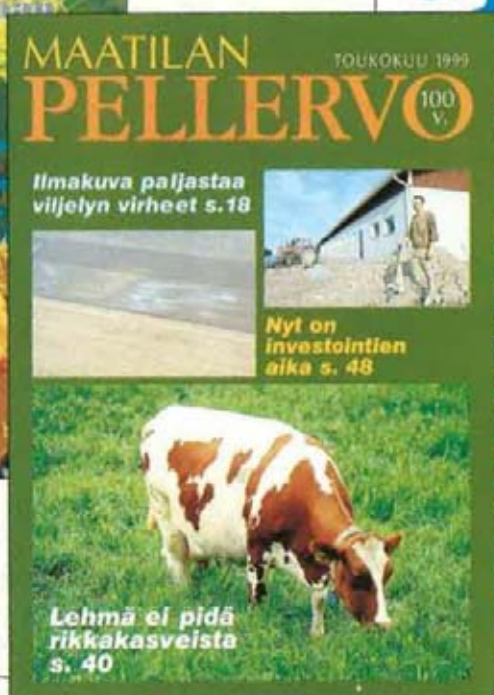
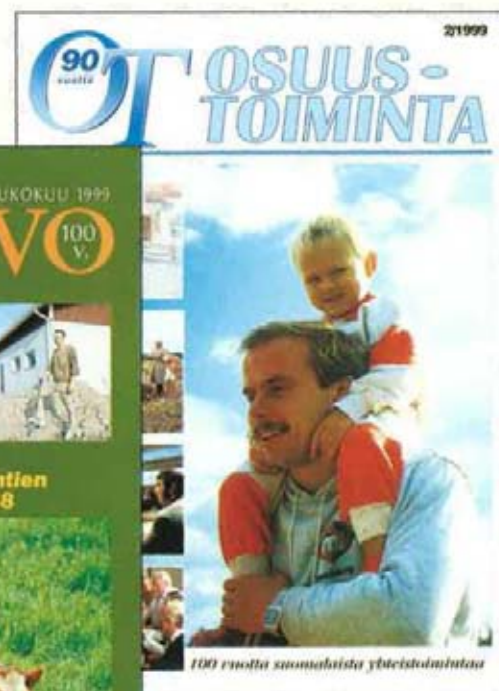


The Pellervo Society has been printing its own calendars since 1917.



In the early years, the advice and literature provided by the Pellervo Society was decisive to the cooperative movement. Its publications, guidebooks and model rules were posted to all interested in establishing cooperatives.





The frontcovers of the *Pellervo* magazine.

*Pellervo*'s magazines have proved to be an invaluable source of information and knowledge. In 1999 the *Pellervo* magazine will celebrate its 100th year of publication. *Osuustoimintalehti* (The Cooperative magazine, founded 1907) is aimed at the professional managers and elected officials of *Pellervo* companies.

The *Pellervo* Economic Research Institute's publications are a modern addition to the tradition of *Pellervo* publications.



communities. The cooperatives needed a large and committed membership. The majority of parishioners had not, however, been brought up in a nationalist spirit, or even felt the unity of the common people as something important. Many were unfamiliar with the new models or held highly traditional views which regarded change as a threat.

The support of the masses for the Fennomans, and thus also for cooperation, did not arise until the 1890s, when Russia began to implement a policy aimed at integrating Finland into its empire. When in February 1899 the local pastor read the tsar's manifesto in Kuortane Church, the majority of the local people felt that the Finnish Party's policy of partial compliance with Russia's demands was correct. It was argued that Finland was too small to resist Russia. Many believed that Russian officials had misled the tsar, and signatures were collected for a petition declaring the Finnish people's eternal faith in their emperor. No less than 1 250 of the almost 5 000 inhabitants of Kuortane signed and one freeholder appointed to join the delegation to St Petersburg. All hopes in the petition were dashed when the tsar refused to receive the delegation. Nevertheless, the policy of compliance was not rejected, although silent resistance was carried out in the traditional peasant way: although farmers would agree, when ordered, to help construct military installations for the Russians, the work was carried out as slowly as possibly.

The Pellervo Society's operations were closely associated with the policy of compliance. It felt that, in this critical situation, the nation was to be quietly strengthened behind the scenes and that the people should wait until conditions were ripe before taking further steps towards self-determination. Even in view of Russian policies, it was by no means self-evident for people to join the cooperatives en masse, but the

threatening situation and ensuing wave of patriotism helped. The same men and women who had come earlier to collect signatures for the great petition now came to speak about the new cooperatives.

There are no records of the talks and discussions that went on in the farmhouses, but it would be surprising if the subject of strengthening the nation was not broached, even if economic issues were paramount. The recruitment of new members was facilitated by the fact that pro-Finnish officials were said to be behind the scheme.

## A familiar tradition

However, one more factor was needed for the scheme to gain approval. The cooperative model was very similar to the old communal tradition of shared labour. Working bees and other forms of voluntary labour were an essential aspect of rural life. In the past, people had pooled their labour to reclaim bog meadows for pasture or watching over the herds of cattle. Other forms of joint ventures included flourmills, slash-and-burn clearing, sawmills and fishing. The local poor had been cared for on a communal basis; the lake surface of Lake Kuortane had been lowered by collective effort, roads and a granary built, the church repaired, snow cleared during the winter and public order maintained.

Although the forms of cooperation proposed by Pellervo did not directly arise from the old system, the traditional division of labour nevertheless laid the basis for cooperation. People were used to working together and strict rules had been laid down, such as the division of the product according to input and control over the quality of individual contributions. The idea was to obtain income through labour without personal risk.

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# THE WINDS OF COOPERATION SWEEP THE COUNTRYSIDE

Initially, the spirit of cooperation was synonymous with the spirit of being Finnish and the idea of national unity, which for a long time acted as a wave of good will. During the period of the breakthrough and emergence of the cooperatives, from the early 1900s to the middle of the century, the spirit of Finnishness was slowly replaced by one of cooperation. The abstract idea of strengthening the nation changed into a concrete effort linked to the everyday life of the people.

The early decades of the 20th century were the golden age of rural life. The work of farmers acquired both a private and national importance that inspired freeholders to industry. There was a strong feeling of rising to a higher level, of building the country, and improving village and family life. Farmers felt they were involved in socially important work and were therefore willing to make an effort.

Support and guidance were available but there was no unnecessary monitoring or supervision. The farmers' societies and cooperatives were freeholder organisations in which matters were approved or rejected according to the members' wishes. Freeholders skilfully exploited the situation, taking what they needed, but never closely committed to any organisation.

Participating in meetings in general, and collaborating in joint economic ventures in particular, meant spelt a great many changes in

the community. When the winds of cooperation passed over a local community, all kinds of activity increased. The founding of one cooperative was soon followed by others. Many minor cooperatives and societies emerged from the farmers' societies or other cooperatives, and the founding of a farmers' cooperative in a locality would soon lead to a telephone network, improved highway or post office, ie, the construction of a civic society.

The first four decades of the 20th century were a period of continuous growth for the cooperatives, during which they became an integral part of society. By the close of the 1930s there were over 7 000 cooperatives in Finland, with almost a million members.

In 1909, Onni Karhunen, secretary of the Pellervo Society, aptly described this breakthrough: "The making of butter and, to a large degree, also its export are in the hands of the farmers themselves, credit and loans in the countryside had begun to be arranged in ways that meet the interests and needs of the farmers. The farmers obtain their implements and the consumers their goods mainly through joint purchases and via the cooperative stores. Modern steam-driven threshing machines have replaced the old methods of barn flailing and growing numbers of farmers are beginning to use cooperatively prepared peat for drying cowsheds instead of the fir branches and straw of the past."



## WORKING TOGETHER



Finland has a long tradition of people working together for the common good. The harvest bee is perhaps the most important example of neighbourly collaboration, though the oldest form is seine fishing. In most cases necessity provided the main motive.



## The old system of cooperation

At Kuortane, as in other farming communities, the dairy was the core institution of cooperative production and marketing. The capital which it generated, was important for developing agriculture in the locality. The Kuortane dairy was on the verge of bankruptcy in 1909-11, when the demand for butter plummeted, but by 1915 it was again on the ascendancy. Membership grew from the one hundred households of the early years to almost 250 by the late 1930s. Accordingly, the amount of milk received by the dairy grew each year. In 1927 a distant hamlet accessed only by a hilly route separated to form its own dairy.

The total number of cooperative dairies in Finland grew throughout this period: New ones were established in place of old private and company-based dairies, their shareholders becoming their members. By the end of the 1930s there were almost 700 dairies with some 100,000 members.

If the dairies were the core of producer cooperation, the retail cooperative societies played a vital role in organising consumption. These were the years when the retail store networks rapidly expanded. The Kuortane cooperative competed with over ten private retailers, but from the beginning it was the largest and most important in the area. The Kuortane Cooperative Society almost went bankrupt in 1913, but the crisis was averted through the stalwart efforts of its members. It set up new outlets, which was typical of the period throughout Finland as membership expanded. The volume of sales grew rapidly as store goods replaced homemade products during the country's transition to a society based on wage labour and money.

Kuortane cooperators were involved with the local savings bank, and there was no demand for a cooperative credit society until the 1920s. Even then it was known as the "boys' bank" as opposed to the savings bank patronised by the older generation. The founding of the Kuortane credit society in 1926 reflected the general expansion of the movement in the 1920s. The incentive came

from the 1922 Settlement Act and the fund established by the state to provide loans for field clearance and farm improvement, issued through a municipal farm fund or the local credit society. Like others, the task of the Kuortane credit society was to implement national agricultural policy. The local credit societies were part of a nationwide network, and their managers were trained in arranging agricultural credit and loans for small farms.

Despite the establishment of the credit society, the savings bank remained the strongest banking institution in Kuortane, and did not achieve an established position until the Great Depression in the 1930s. Falling produce prices prevented farmers from repaying improvement loans. When the credit societies, with the support of the state, granted long-term mortgages to farmers for the repayment of debts to other banks, they also gained new members.

## New cooperatives emerge

During the early decades of the 20th century, the "fourth wall" of Finnish cooperation, the other cooperatives, consisted of several sectors of which meat processing, insurance and egg sales were the most important. It took a great deal of work to launch operations in all these fields, and no real progress was made before the second world war.

During the main stage of establishing slaughterhouses in 1914, a provincial livestock and meat sales cooperative was also founded in a town near Kuortane. Its first decades were a struggle for survival. The cooperative slaughterhouse faced two major problems. Firstly, it lacked a clear strategy, as it was involved in selling livestock, sausage making, tanning and retailing. Its second problem was membership, for despite every effort, only a thousand or so people joined and neither could they be induced to fully commit themselves. In Kuortane, as elsewhere, there was an established procedure whereby fatstock went to the local cooperative store, butcher or private slaughterhouse, who paid on the spot. This suited the sellers

## AGRICULTURAL SHOWS



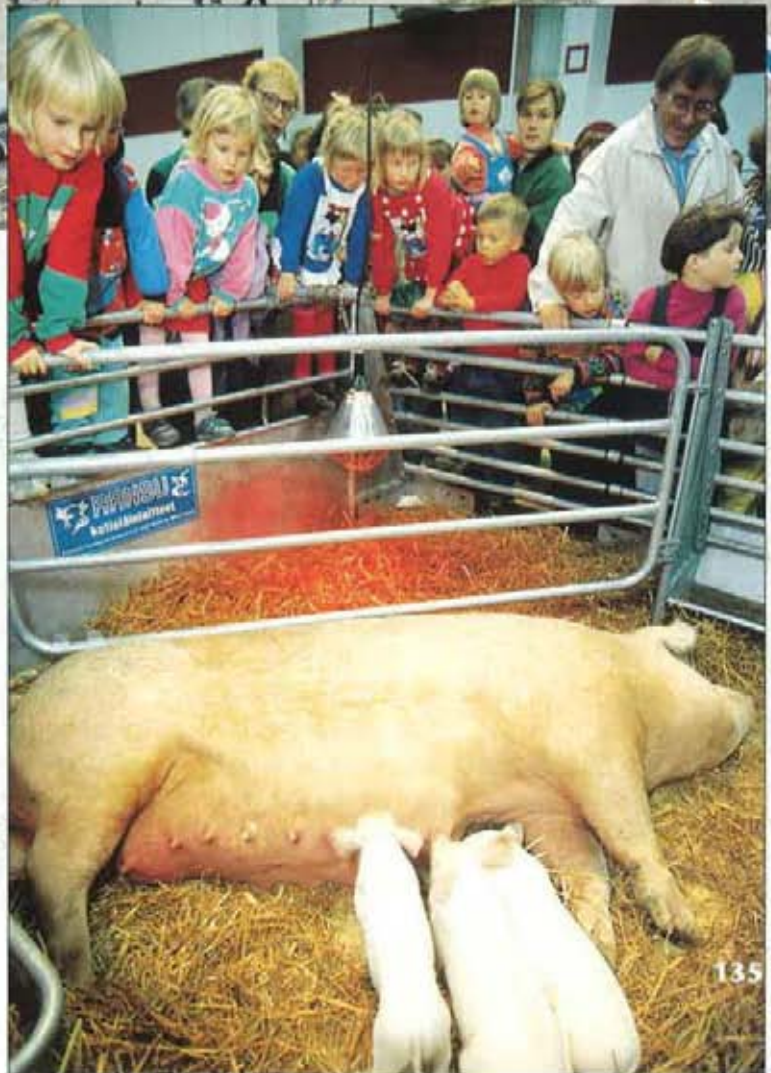
In order to reach a wider public, the Pellervo Society took part with H  nkki   in an agricultural show held in Kuopio in 1906. The model dairy they presented attracted great interest.

At the Viipuri show in 1932, an AIV silo was built to explain how to make silage.





By the end of the 1950s agricultural shows had become highly popular entertainments. The tents house the Pellervo Society, Hankkija, Valio and OKO stands.



At the Helsinki show in the 1990s, the children of the capital could become acquainted with farm animals.





much more than the cooperative slaughterhouse's post-payment system.

In the mid-1930s, the Pellervo Society arranged a state loan for the cooperative slaughterhouses to build new facilities. The situation was improved by an expanding economy and state subsidies to the meat industry. The provincial slaughterhouse streamlined its operations and began a systematic membership drive, and by the end of the decade there were approximately two thousand members.

Insurance was another new area for the Pellervo cooperatives. There was a long history of fire insurance dating back to the 19th century; the municipal "fire insurance association" of Kuortane was founded in 1883. It collected the premium only after any possible damage had occurred. Insurance legislation passed in the early 1900s led to new rules for the association, converting it into a mutual insurance association. The new act also required mandatory reinsurance if the liabilities

The cooperatives were among the first to acquire lorries in the countryside. And after the deliveries had been made they might be used to drive the staff to sports meetings.

exceeded a certain amount. There was no discussion of reinsurance in Kuortane until almost ten years later. This was typical as reinsurance spread slowly, and it was not until the early 1920s that the society decided to reinsure its largest policies with a private insurer.

Despite the pronounced cooperative spirit of the community, the insurance association did not join the Vakava Insurance Association founded by the Pellervo Society in 1918. Similar decisions were made in most other localities and the Vakava society had to struggle for many years to gain parity with its main private competitor. The Kuortane Fire Insurance Association, however, entered the Pellervo network by joining the

Federation of Rural Fire Insurance Associations, which was a Pellervo-type advisory organisation arranging courses and issuing its own magazine.

In the early years of the 20th century the sale of eggs were regarded as a good way to supplement farm income. No such cooperative was founded at Kuortane, as few farmers kept chickens and the small quantities of eggs for sale went to the cooperative store. In 1921 the Pellervo Society established Vientikunta Muna (Munakunta) to look after the export of egg cooperatives. Although these were established in many neighbouring areas, the Kuortane cooperative store continued to serve the needs of the community. In 1933 Munakunta began to accept retail cooperative societies as members, and the Kuortane one joined in 1934. This was part of a wider scheme, and in the 1930s the majority of the company's members were cooperative societies.

While these three areas of cooperation still awaited success, there were others which thrived during the first half of the 20th century. These jointly bought agricultural implements and stud bulls, and cooperated in flourmill and peat drying ventures. Most of these semi-cooperative ventures were not organised as businesses. The farmers gladly kept to unofficial forms of cooperation whenever possible and a cooperative was only officially registered when a venture required legal standing. In many places the old traditions of collaboration and the new cooperatives existed side-by-side and intermingled. The basis of all cooperation was a network of social relations used for the promotion of production.

## The Pellervo network

The Pellervo Society wished to use the cooperatives as a channel for information from the centre to help the farmers improve their economic well-being. This would also reinforce the bond of loyalty between the common people and the educated classes and the idea of a nation state. The objective was to create a wealthy sector of society making use of up-to-date information and focus-

ing on the Society's aim as being a counterweight to the labour movement and capitalism. Through its nationalist-oriented network, Pellervo linked the educated and prosperous patriotic farmers to its national project. With the support of the elite, this "early" group had already gained a position of authority and made its message credible. It was reinforced by a threatening political situation, which drew in the "late-comers".

Cooperation was the first mass movement in Finland to involve the rural population. Economic factors bound members to the movement more closely than ideology. Just as Hannes Gebhard had envisaged, cooperation linked the local level to the nation through economic structures and a genuinely democratic process. It was through this democratic ideal that the rural population, which regarded itself as "poor", began its rise towards having a say in the affairs of society.

The founders of the Pellervo Society planned a network of cooperation extending to all levels. People would join the local organisations, and these would link forces in specific sectors of production. The sectors, in turn, would shape the overall economy, creating a context and environment for the local economy. The local societies would join the regional society, which in turn would join the provincial association, and finally the national body. The ideal was fluid cooperation between the different sectors of the economy. The plan was to gradually change the Pellervo Society into a federation of all cooperatives in Finland.

The breakthrough was marked by a diverse process of networking, joining the Pellervo Society and the central societies, the central administrations and provincial organisations, and being linked via the provinces to the local network. Good contacts with civil servants and politicians were part of this overall network.

However, in spite of the network, the relationship between the main central society and the local cooperatives did not develop as desired and only a fraction of the cooperatives joined Pellervo. Owing to the patriarchal rule of Gebhard, only the credit societies were closely allied to the Society.

Although no formal relationships emerged, the



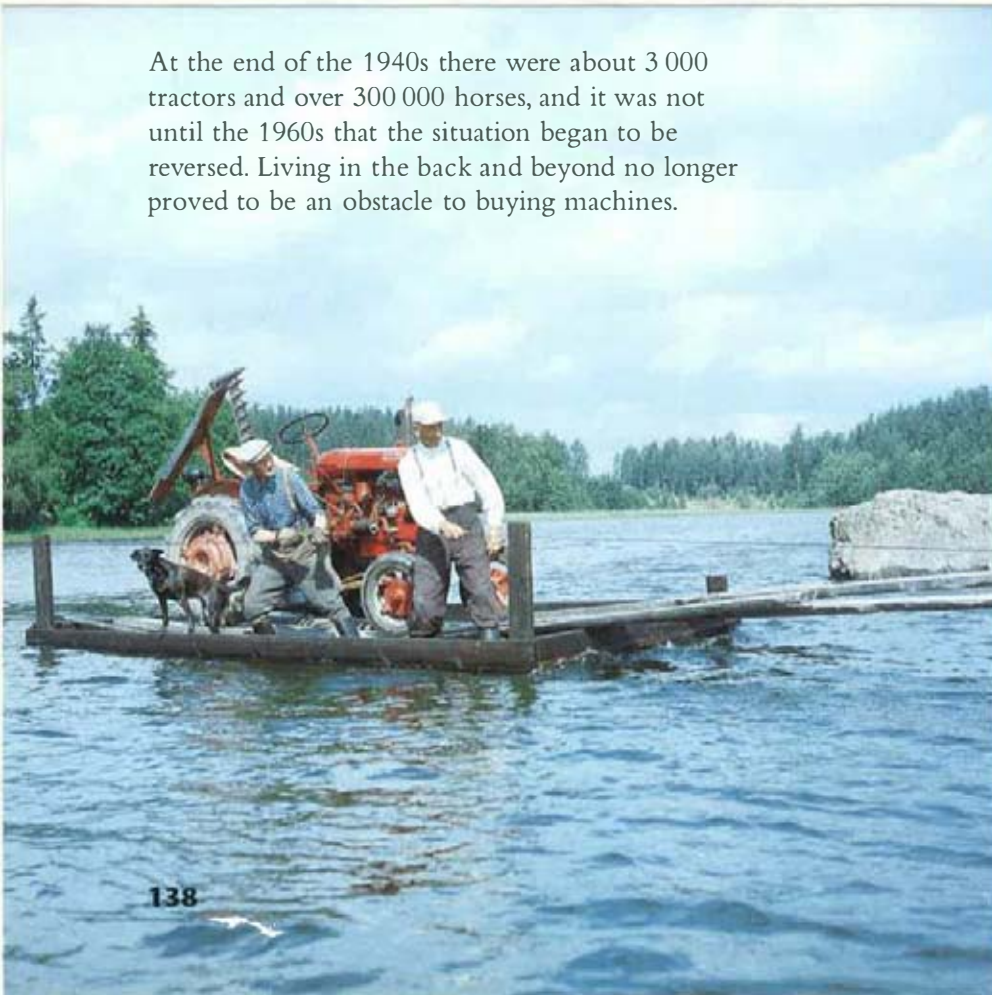
## FROM HORSES TO TRACTORS



Finnish agriculture has witnessed the transition from horses to tractors during the past century. In 1919 Pellervo noted that the new “field engine” was in every respect superior to the horse.

During the second world war, wood-gas generators helped solve the fuel shortage.

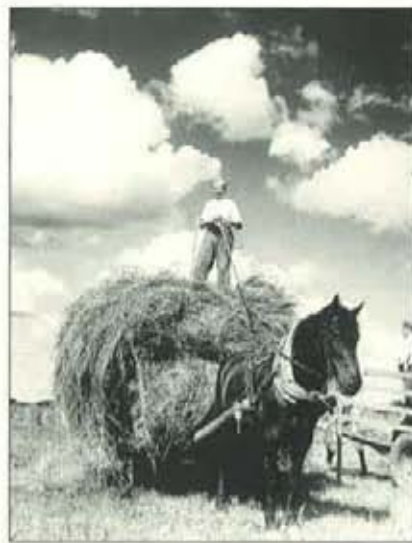
At the end of the 1940s there were about 3 000 tractors and over 300 000 horses, and it was not until the 1960s that the situation began to be reversed. Living in the back and beyond no longer proved to be an obstacle to buying machines.







The prosperity of Finland owes much to this kind of partnership. A lumberjack and his horse are put to the test hauling logs in midwinter to the nearest truck lay-by.



cooperative spirit lived on. The interaction between the Pellervo Society and the cooperatives was based on the Society's publications and educational work. Members of the farmers' and cooperative societies subscribed to the Society's magazine and its advice heeded on how to improve agriculture in the locality. The Society also produced a steady stream of manuals on the establishment and management of cooperatives, and instructions on registration and the interpretation of legislation.

Although the number of member cooperatives in the Pellervo Society remained small, membership in the central societies was another way of linking the movement's organisations together. The local cooperatives regarded the central societies as the link to the national and international markets, and as important means of teaching and spreading the model of cooperation. They participated in the planning and costs of cooperative training and published their own journals and booklets.

Establishing a membership for Hankkija, which traded in agricultural implements and machinery, proved far more difficult than getting the dairies, retail societies and credit societies to join their respective central societies. Pellervo planned to get the buying and selling cooperatives to join Hankkija. These were not established by the farmers, as they felt purchases could be arranged through the retail societies.

The solution followed at Kuortane was typical. Joint purchases were first carried out by the local farmers' society, then when the retail society was founded, it took over the sourcing of implements and machinery, and also joined Hankkija. Hank-kija and the cooperative societies were essential for each other. The latter provided Hankkija's main retail outlets and stocked agricultural implements and supplies in order to attract farmers to join. In many places, the retail society started off with a small range of goods, but soon the members demanded more. Another important area for Hankkija was the mechanisation of the dairies, in which it gradually became an expert. The dairies in Kuortane also joined Hankkija.

The provincial associations of cooperatives

represented the central societies at the regional level. Gebhard had expressed the wish that Pellervo would become a veritable union of cooperatives. The local cooperatives would join the provincial association and these in turn would become members of the Society.

The organisation of the dairies soon came under way, especially since Pellervo arranged state subsidies for them. The dairy associations became important organs for collaboration and channels of information for the local cooperative dairies. The Kuortane dairy was a charter member of its own regional dairy association, and its management regularly attended the meetings of the association. There were similar organisations for the retail cooperatives and credit societies. The nation was divided into cooperative and credit society districts in charge of the "ideological instruction and education of the members".

Regional and provincial organisation proceeded as planned by Gebhard. Instead of the Pellervo Society, these intermediary organisations joined their respective central societies, and the existence of provincial associations diminished the importance of the Society for the cooperatives. The associations acted as a forum for keeping the local cooperatives abreast with developments.

The associations and the central societies engaged in close collaboration. The central societies supported the associations in hiring instructors and the associations in turn promoted the central societies. The provincial network became the most important centre for collaboration among the local cooperatives.

## **Collaboration between cooperators**

In addition to the national and provincial levels, Pellervo's organisational ideal included a strong local network. The farmers' societies and their allies the cooperatives became the centres of information around which a diversity of networks developed, although the Society was unable to play a leading role.



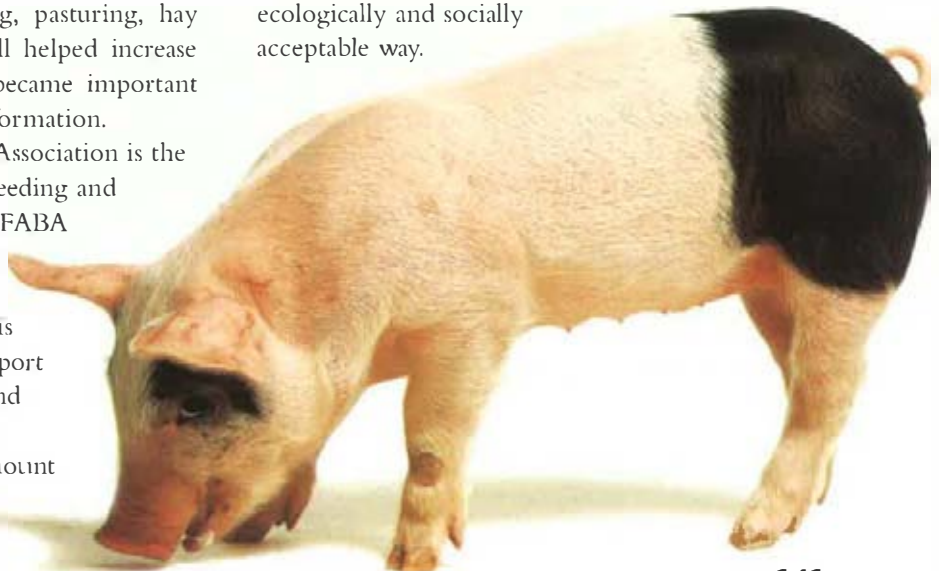
## ANIMAL BREEDING



Dairy stock played a vital role in the revival of agriculture at the beginning of the century. Improvements in cattle breeding, pasturing, hay cultivation and winter feeding all helped increase milk yields. Agricultural shows became important venues for obtaining the latest information.

The Finnish Animal Breeding Association is the central organisation for animal breeding and artificial insemination in Finland. FAB maintains the official handbooks for dairy cattle, beef cattle and swine. The Association is responsible for the import and export of breeding cattle and pigs, bull and boar semen and cattle embryos. Environmental awareness is paramount

in animal breeding. The aim of the Association is to utilise natural resources in an economically, ecologically and socially acceptable way.



The farmers' societies would have been the best way to reach the rural localities, but Pellervo's connections with them had weakened in the early 1900s. After their main function – joint purchasing – had been taken over by the retail cooperatives following the passing of the Cooperative Societies Act, the Society lost interest in them. Insufficient funds also forced it to ignore them and concentrate on the cooperative societies. Paradoxically, the solidarity of local cooperators and the degree of actual collaboration were nevertheless significant and cooperation was seen as a common ideology. Whenever a new joint venture was begun in Kuortane it was seen as “strengthening the local spirit of cooperation”.

The same people sat on the boards of the farmers' societies and the cooperatives, which was only natural as new cooperative projects always evolved from earlier ones and membership in one easily led to joining another. The local network was based more on communal contacts than cooperation as such. Cooperation was the way to improve the locality and it concerned a broad circle. The people involved were prominent in municipal affairs, schools, savings banks, insurance associations and a variety of clubs and societies. These networks included telephone and electrical power companies, fire insurance, horse-breeding associations and ideological societies.

The cooperatives subscribed to a strong social ethic and worked for the common good of their areas, assisting both educational and ideological organisations. They would also aid more distant projects such as a regional farmers' institute. The retail cooperatives also supported projects at the national level.

## The apolitical bourgeoisie

The whole cooperative movement was viewed, almost axiomatically, as apolitical. Everyone was allowed to join regardless of political affiliation, although “personal” relationships with the Finnish party, which had arisen from the Pellervo

Society and nationalist circles, was still strong in the early years of the 20th century.

The active cooperators of Kuortane were also involved with the Finnish party. There was little local support for the Agrarian Union until the late 1930s, when it became the second largest party after the Conservatives. Pressure to conform ensured that there was no room for the Social Democrats at Kuortane. Party cadres were also active in running the cooperatives. The political spectrums of the cooperatives and the municipal administration were roughly the same. The original domination of the Finnish party / Conservatives gave way to collaboration between the Agrarian Union and the Conservatives in the late 1930s.

Although the cooperatives sought to support the smallholders and promoted themselves as the movement of the “poor”, there was no intention of altering ownership relations in the countryside. Their objective was more to mediate in conflicts of interest, a process parallel to the Finnish party's aim of maintaining political stability.

At the local level, the Pellervo movement primarily reinforced a network of middle-sized freeholders, whose power was based on the municipal administration, the old Finnish movement and its later party affiliations. The cooperative activists belonged to the “social centre” of the locality, which quickly adapted new ideas. This was not a matter of attitudes alone, as the spread of technology also depended on money. The wealthy farmers could afford to keep abreast of developments. But new and efficient methods also meant widening the gulf between the landless and those who owned their farms, and these differences fanned the growth of differences in education and living standards.

Although Finland possessed the world's most democratic parliamentary system, local democracy was still undeveloped. Universal suffrage at the national level did not destroy the old patriarchal hold over local government which, in practice, remained under the control of the freeholders. Local government stagnated, with the same people running the councils from year to year. However,

in the eyes of the people, the management of practical affairs was ultimately more important than addressing conflicts of interest.

In spite of this attitude, the cooperatives worked to settle the conflicts within society. The social background of retail society members was always more varied than that of the producer cooperatives, as they were also joined by workers and rural labourers. The local credit societies were important in financing the smallholders. Both the granting of loans and joint purchasing speeded up the already rapid development of agriculture. The purchasing of machinery for one's own household alone would have been too expensive for most farmers, but it could be managed through a cooperative.

The inferred apolitical nature of the cooperatives made it easier for different groups and classes to join, but it was not the basic incentive as the benefits of membership were the primary consideration. The cooperatives also made it possible for small farms with only one or two cows to find an outlet for their produce and also obtain the goods they needed.

The commercialisation of agriculture and the cooperative system brought the various classes of the countryside closer together. Common economic interests cemented ties among the rural middle class, crofters, smallholders and freeholders, and both freehold and crofter farmers shared the same farming identity and the life of the free peasant. This was also the essence of the ideal taught by Gebhard and the Pellervo Society. Agriculture was a way of life that had been carried on for countless generations, and people would only move into the towns and cities when it became absolutely necessary.

## Instructive cooperation

During the early years, cooperation was associated with a programme of popular education aimed at adjusting agriculture to the world market and the market economy in general. By the same token, people were also to be shaped to the requirements

of modern society. The new rationality included the steady supply of milk to the dairies, loan monitoring, and the gender division of labour. Lectures given at farmers' society and cooperative society meetings, instruction provided by visiting advisors, and such forms of education as competitions, were important because all this was part of a more comprehensive network replacing the older one mainly oriented around the nationalist-minded freeholding class.

The Pellervo Society was part of a grand project to accommodate Finland to the world economy by teaching a new "rationality". The cooperatives made it possible to process goods for the market, provide a chain of distribution and obtain capital for business ventures. These aspects were associated with the modern requirement of specialised labour and work. The creation of a nationwide network of dairies spread the idea of specialisation among the farmers. The quality of exported butter was a question of life and death for Valio. Thanks to improved transport, the European butter market was more than adequately supplied. Under such conditions, quality became a prime consideration. Climatic conditions made it difficult to ensure a steady supply of milk in all seasons, and the short summer and long, cold winter called for major investments in order for agriculture to survive on the international market. At the beginning of the 20th century, however, Finland managed to raise the quality of its butter to the high European level while keeping prices competitive.

From the beginning, one of the declared aims of the Kuortane Cooperative Dairy was the education of dairy farmers. The dairy was to be adapted to the emerging structures of production. The suppliers were paid according to the percentage of fat in the milk, and there were campaigns in favour of cattle breeding and improved feeding. New feeding methods were tied to higher productivity and fat content, and a longer milking period. Hay cultivation was a major reform as many farmers considered it almost sinful; it required field clearance, new hay strains, more efficient mowing and drying



## EDUCATION AND ENLIGHTENMENT



The dissemination of information is one of the primary tasks of cooperatives in Finland as elsewhere. Only a few years after their establishment, the Pellervo Society and the central cooperative societies began a programme of systematic education in the theory and practice of cooperation.

At first this took the form of roving instructors, then in 1909 a cooperative school was established and in 1929 a correspondence school. In the 1960s Pellervo concentrated on the training of managers and elected officials. The work continues in the Pellervo Institute set up in the early 1990s.



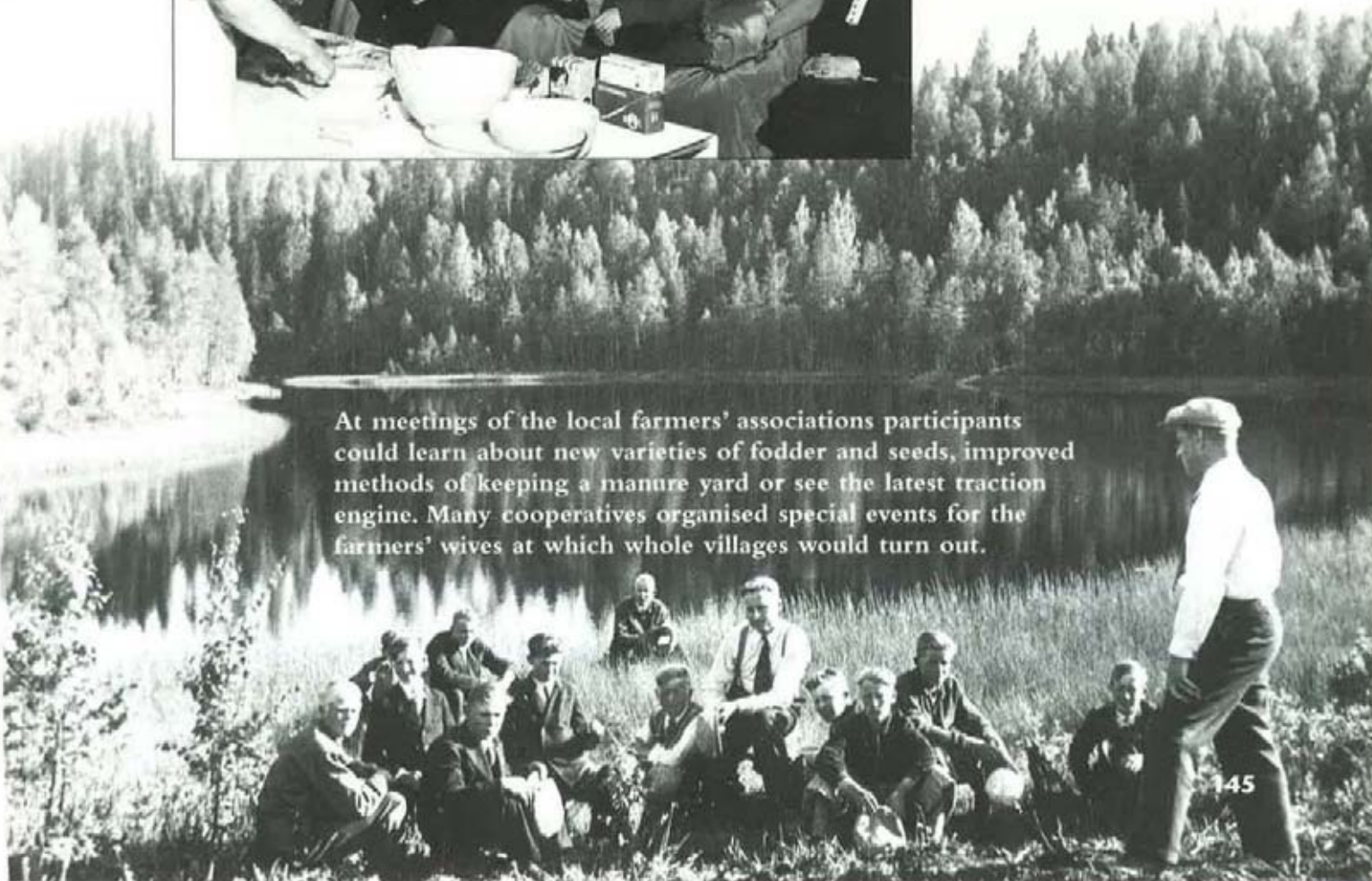
At the beginning of the century Pellervo had a dozen or so advisors who travelled around the country instructing cooperators and others. A gathering in 1913 to listen to a lecture on cooperative methods.



As late as the 1930s, important dates in a local cooperative society were still being celebrated in very humble circumstances, yet with great piety.



In the 1950s, SOK began to emphasise the importance of women as shoppers. The cooperative societies established women's committees which served as a feedback channel and a forum for introducing new products.



At meetings of the local farmers' associations participants could learn about new varieties of fodder and seeds, improved methods of keeping a manure yard or see the latest traction engine. Many cooperatives organised special events for the farmers' wives at which whole villages would turn out.



methods, and the construction of storage facilities. On the other hand, there was no opposition to cattle breeding. Nobody would have said no to improved breeds of cattle if they could have afforded them. It was a question of money.

Advances in fodder and cattle breeding affected both the quantity and quality of the milk produced, but for the dairies the most important consideration was improved hygiene. One poor quality batch could spoil all the milk, which is why dairy rules underlined the importance of hygiene. The dairy supervisory association employed a dairymaid to go from farm to farm advising farmers on the correct washing of cows, the treatment of manure and other aspects of hygiene. Other educational work concerned improved cow sheds, lectures at cooperative meetings, the distribution of magazines and the organising of dairy association shows. The most effective way, however, was the price paid to the farmer. Quality-based pricing was adopted at Kuortane in the mid-1920s, after which the quality of milk immediately improved. As soon as the quality fell, the dairy increased the price differences between the grades.

A similar educational policy was also followed in the other cooperatives. The Pellervo Society felt that the founding of cooperatives was not an end in itself as they had a more important role to play. Cooperation should always involve advice and education. The bull associations, for instance, were not established just to obtain stud animals but also to instruct farmers in proper husbandry. The Vakava reinsurance association was set up, because other reinsurers were not interested in education but only in business. This trend was most pronounced in OKO and the local credit societies under Hannes Gebhard. One of their objectives was to "ally professional instruction as closely as possible with the lending operations of the credit societies... Money alone is not enough. It is more important to provide instruction on how the borrowed funds can be best used to improve conditions." The local credit societies demanded strict loan monitoring.

## From economic diversity to standardisation

Standardisation gradually replaced the traditional diverse economy based on the need to gather the necessities of life from different sources. During the period of emergence, the two systems coexisted and although the trend was towards specialisation, rural consumption and production still relied on the old system. Although the structure of agricultural production appeared to change rapidly, the old way of life survived. It was as if the new society floated on top of the old one. Rural households still followed a seasonal pattern of work, and home produced goods and the exploitation of nature's bounty considerably supplemented incomes. For economic and business reasons the farmers adapted to the objectives society regarded as important, but they also wished to preserve as much as possible of the old system. Familiar patterns provided social and economic security.

In contrast to the standardisation of the producer collectives, the retail cooperative societies considered it a matter of principle to support the diverse rural economy. In this respect, they were for many years the core of cooperation in the rural communities. The stores bought and marketed the harvests of the fields and forests. In Kuortane, the store acted as the outlet for grain, vegetables, tubers, firewood and berries. It received home-churned butter and cattle for slaughter, which were often used as payment for goods from the store. By selling produce like eggs, game and berries, cooperative stores considerably helped the smallholders, who were forced to earn their income from several sources. The retail societies traditionally sold on credit, even though the Pellervo Society opposed the practice because it was contrary to the cooperative spirit. In reality, however, it could not be avoided as earnings and needs in a seasonal agricultural system did not coincide.





Mobile shops made their appearance in the 1950s to supply the outlying districts.

## Standardisation of labour among the genders.

A new feature of rationalisation was the reshaping of gender roles. The absence of women from the management of the cooperatives and their central societies was one of the most marked features of cooperation. Significantly, Marttaliitto, the national union of Martha women, was founded at the same time as the Pellervo Society. The Martha women significantly speeded up one of the main standardisation projects of Finnish society, the separation of gender-based areas of action, which the cooperatives in due course reflected.

Both the Pellervo Society and the Martha organisation were established in response to the February Manifesto and they sought to promote civic consciousness and activities beneficial to “the

parish and the nation”. They even presented the same arguments, ie, it is impossible for the people to improve their educational standards without a solid economic foundation. They also developed advisory organisations and published educational literature, and it was through these that countryfolk were introduced to the logic of specialisation. At the same time, they also institutionalised a new gender division: the task of men was production while the household was left to the women.

A new femininity developed based on the home and motherhood. The keywords were morals, motherliness, self-sacrifice and diligence. The Pellervo Society’s publications associated the cooperatives with “decent people” who were honest, dependable, unselfish and patience.

Although the ordinary people did not quite appreciate the separation of the household from production, the new gender concept had become largely recognised by the 1930s. In the municipal councils women were regarded as “women’s representatives”, whose responsibilities included care and education, while economic matters were

a male domain. Although women remained outside the management of the cooperatives, the success of Finnish butter on the European market owed much to women. The rise of the Finnish dairy industry was largely based on cheap, skilled female labour in the farms and dairies, thus making competitive prices and high quality possible.

## **Member resistance to standardisation**

Membership in a cooperative also entailed the acceptance of a uniform role. Cooperation was also a means for disseminating new ethical and social norms, the ideal of a new, rational lifestyle, which meant hard work, thrift, temperance and goal-orientation. It was difficult to get members to join in accordance with purely cooperative principles. For example, membership in a cooperative dairy basically implied delivering milk to a dairy. The relationship of members with their cooperatives varied greatly according to economic and market conditions.

The desire and need to join were dictated by the prices obtained for the products members sold. The cooperatives gained new members when they were able to pay higher prices than others, but when farmers were paid better elsewhere the agreed quantities of milk were not delivered. Membership and commitment were of vital importance to the cooperatives, for the whole venture was based on people, not money, and estimates of profitability were based on the number of members. "Rebellious members", however, were a fact to be contended with. The management of the Kuortane dairy both threatened and appealed to members to make

them deliver milk according to the number of cattle reported to the dairy.

The membership issue could be particularly difficult for cooperative slaughterhouses. These operated in large districts and member commitment was nowhere near as high as in the dairies. Slaughterhouse agents toured the districts to buy fatstock animals from all who were willing to sell. Milk deliveries were so important to the dairies that most of them would buy more than half their milk from non-members.

Characteristic of all the cooperatives and other joint ventures at Kuortane was the enthusiasm of the charter members. At first, the management would work without remuneration and was highly committed to the affairs of the cooperative. Large numbers of members would take part in the founding of the cooperatives and major building projects were carried out voluntarily. Under normal conditions, however, members placed their faith in their representatives and did not personally attend meetings.

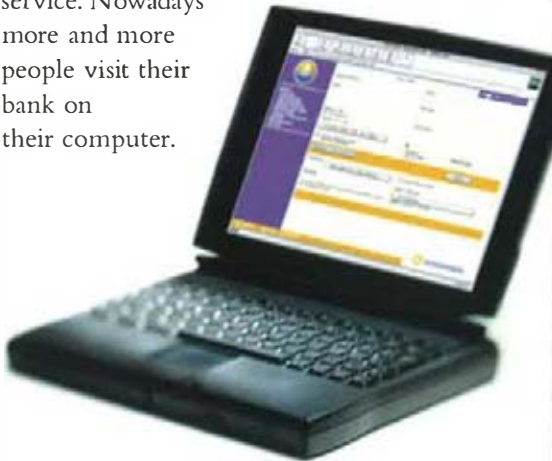
Although the members generally elected the owners of middle-sized freeholds to the boards, they were unwilling to remain a passive and manipulated group. All matters of even minor import in terms of principle were submitted to the general meetings of the society and when necessary members would exercise their authority. These membership problems indicate that the farmers did not unquestioningly adapt to the rational concepts of cooperation. The creation of member relations as in the ideal concept of cooperation required a great deal of effort. Members sought to maximise their profits whenever possible. On the other hand, the cooperative was regarded as important when there was a threat of operations being discontinued.



# COOPERATIVE BANKING

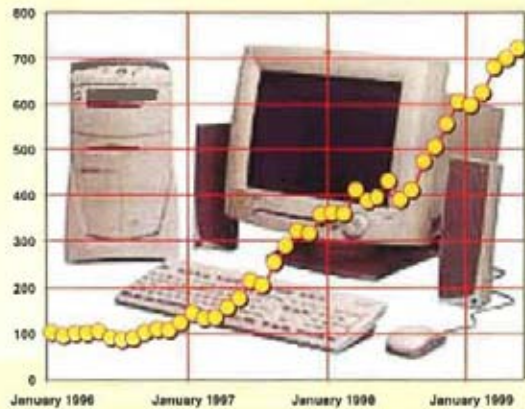


Cooperative banks have always offered a personal service. Nowadays more and more people visit their bank on their computer.



## Online Transactions

INTERNET TRANSACTIONS, January 1996 = 100





## FROM PROCESSORS TO PRODUCERS

**T**he period of consolidation and centralisation began after the second world war and continued well into the 1980s. This period of regulatory policies and collective bargaining was marked by the reduction in the number of cooperatives and the identification of the Pellervo movement as a producers' organisation.

The 1960s were years of healthy economic growth and fundamental change in Finnish society. The opportunities for additional income, the guarantee of being able to live on small farms, decreased as a result of mechanisation, standardisation and mass production. The trend in agriculture was towards middle-sized specialised farms. Surplus production became a problem and restrictions were placed on the expansion of agriculture. Throughout the country, farms were specialising in single products, either traditional ones like milk, meat, eggs or grain, or completely new ones like sugar-beet, rape, strawberries or furs.

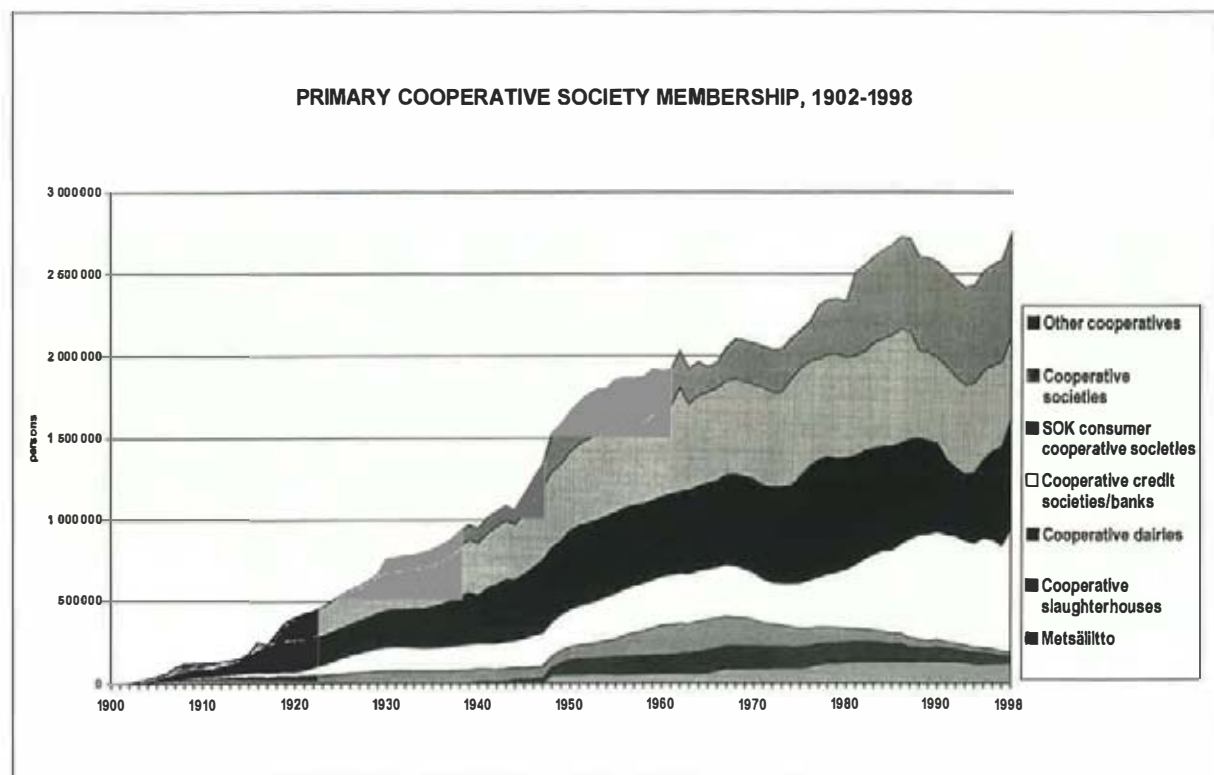
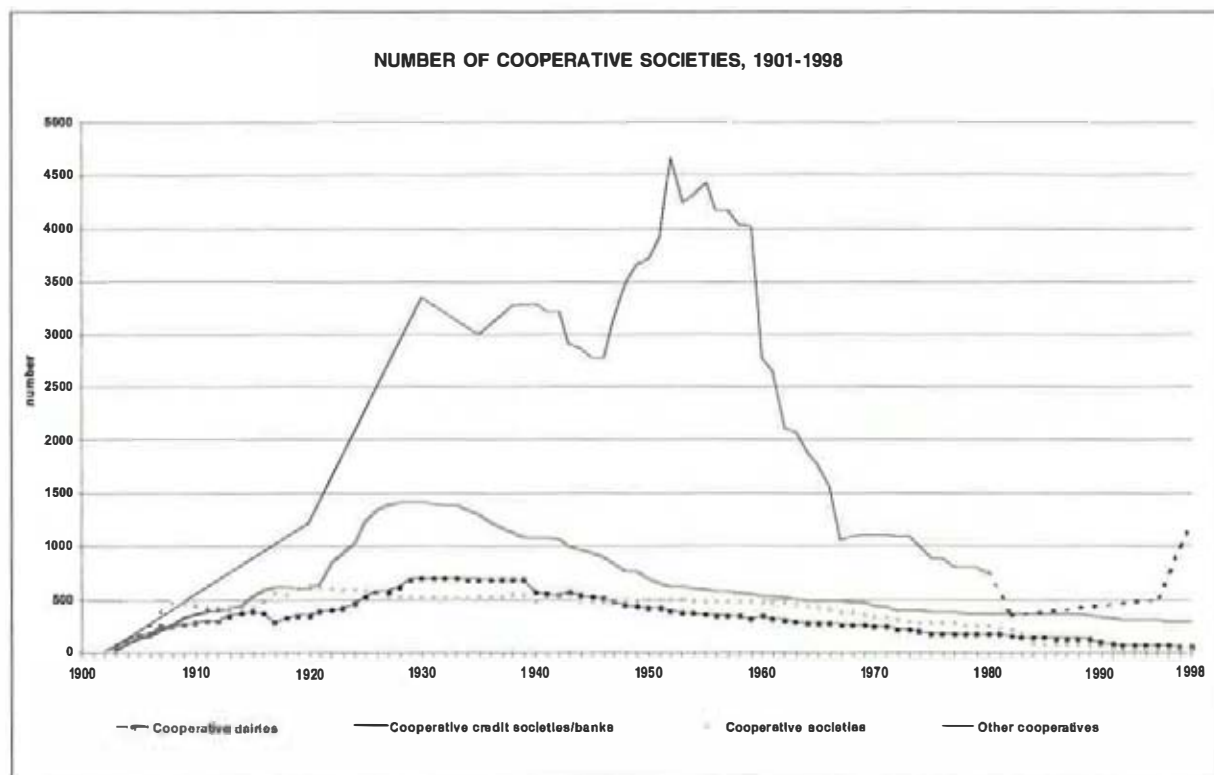
The smallholders grew old and died, while the younger generation gave up farming and moved to the cities. Services and settlement were concentrated in the conurbations. Kuortane suffered the same fate as other rural communities. Its population declined as the young people moved away and the number of those gaining their livelihood from agriculture decreased annually.

The farmers' lifestyle began to resemble that of wage earners. A growing percentage of output was sold as a cash crop. Agriculture became less

self-sufficient and increasingly dependent on the markets. Work and leisure were differentiated and brought together again by consumption. It was necessary to earn by working in order to be able to spend during one's free time. The old diverse agricultural economy passed into history, or as one farmer explained: "Along with the milk cows we also kept pigs, a couple of hundred head of poultry, so the dairy business was not so important. We grew rye for sale, and wheat too. Before, we were in a kind of non-cash economy, but now these farms have become more like business operations. We produce milk, but buy all our other food."

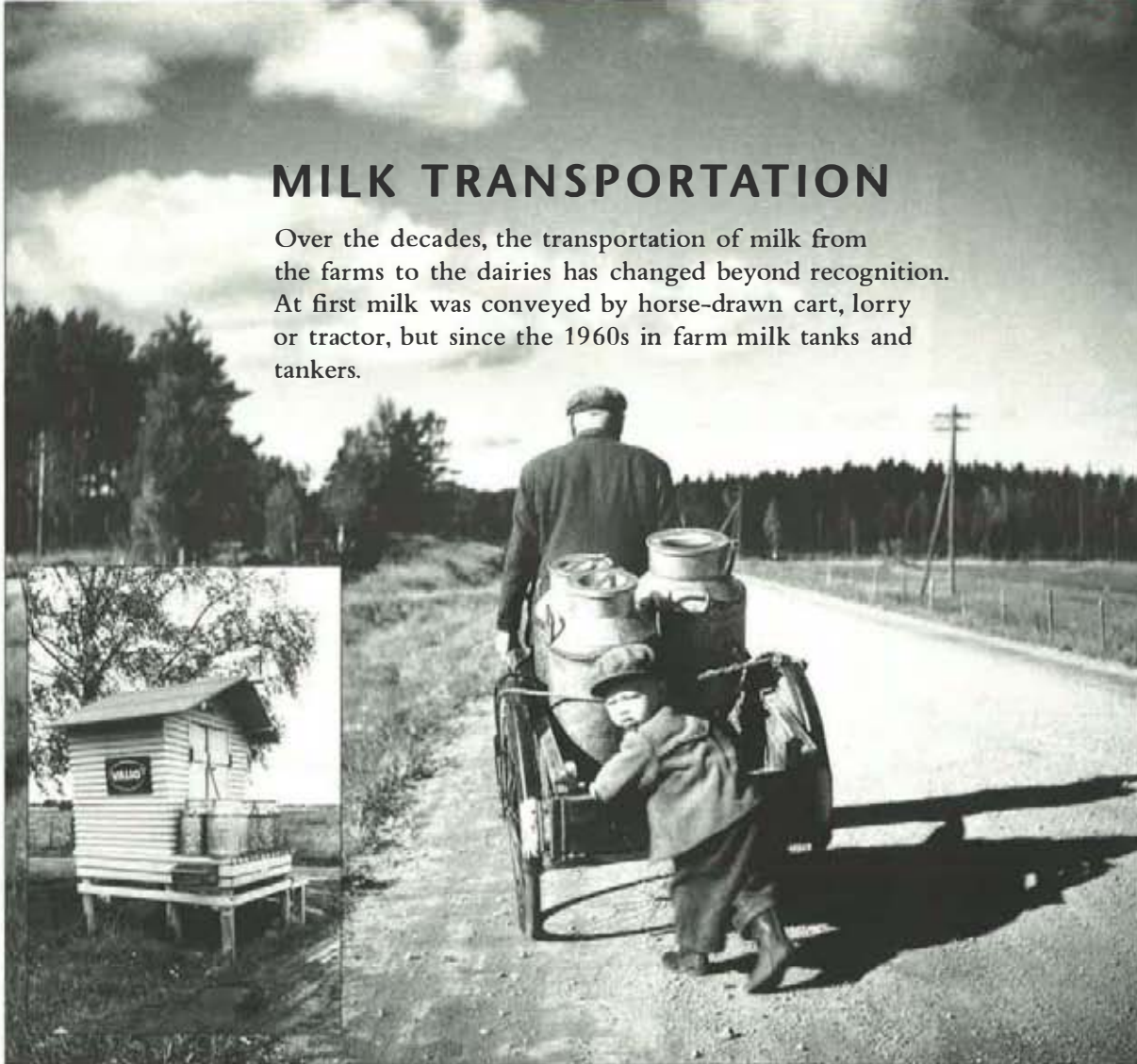
### From village cooperatives to provincial societies

Just as society during the early years of the cooperative movement was based on the high population and activities of local communities, cooperation was also small in scale and local in nature. The large rural population was sufficient to maintain the local cooperative dairies, banks, retail societies and others. The adaptation of cooperation to social changes also implied a decrease in numbers. During the years when the cooperatives became established institutions, they were concentrated in the provincial centres. By the end of this period there were over 5,000 cooperatives in Finland; the corresponding figure



## MILK TRANSPORTATION

Over the decades, the transportation of milk from the farms to the dairies has changed beyond recognition. At first milk was conveyed by horse-drawn cart, lorry or tractor, but since the 1960s in farm milk tanks and tankers.









After the second world war, many dreamed of a new home or cowshed. The local coop store helped get the materials and the cooperative bank the finance. These banks were the main source of settlement loans.

in the late 1980s was only about one thousand. Standardisation proceeded from raw materials and products to the processes of production.

Throughout the period of consolidation the cooperative dairy was the basis of economic activity for Kuortane. Two-thirds of local farmer income came from dairy cattle. The cooperative dairy expanded production at an even pace.

After the war, Valio began to systematically concentrate and centralise the cooperative dairies, with support from the provincial associations. When the provincial cooperative dairy association was established in 1962, the Kuortane dairy was one of its charter members. Three years later, the butter of the Kuortane dairy was churned at the provincial dairy and almost 60 years of butter making at the local dairy came to an end. Opinions were divided in Kuortane, but it was understood that this was a decisive, if not crucial, decision, and the meeting called to discuss joining was well attended. The opponents of the scheme feared that members would lose their say when decision-making was transferred from the locality to a large unit elsewhere.

The Dairy Association's propaganda argued in

favour of a joint butter factory as this would facilitate the marketing of standard quality and uniform retail packaged products. The prices paid to producers would rise as production costs fell. It was also stressed that the situation would not change for the dairies; they would only sell their products at an earlier stage of processing.

The Kuortane Cooperative Society followed the same course as the dairy, but it was to be ten years later, in 1974, that it was merged into the regional cooperative society. Its customers began moving away from the countryside in the 1960s and as cars became more widespread people could shop further away. The final blow to the cooperative societies was the drastic fall in the trade in farm supplies and implements. Until the 1960s, farmers would sell their produce to the society and in return buy the fertilisers, lime, feed, seeds, seedlings and machinery they required. This trade was important for the rural societies, for the reciprocal principle bound the farmers to a store that they felt was their own, and it also increased the sales of groceries.

The retail cooperative societies sourced roughly half of their farm suppliers and



equipment from Hankkija, and they constituted its largest member group. For the small societies, the split between Hankkija and SOK in the early 1970s was a difficult pill to swallow, as they felt their operations were at risk if they lost their contacts with Hankkija and the products with which they were familiar. Hankkija was regarded as the retail societies' own central society. Before the split, there had been hardly any competition in the farm supplies trade. Cooperative society members were loyal and bought all they needed from its stores. Moreover, the society offered flexible terms of payment, which was a significant benefit as farm supplies and equipment were more expensive than groceries.

After the split, a significant number of farmers began buying directly from Hankkija or the cooperative dairy. For example, milk tanks, the main article purchased in the 1970s, were bought mostly via the dairy, which financed them from the milk account. The dairies also distributed other agricultural supplies and even traded in fodder.

The cooperative society now faced competition whereas earlier it had been virtually a monopoly. Sales of machinery gradually improved, but conflicts in the agricultural supplies trade and fatstock business eroded profits and alienated the farmers from the society.

The cooperative slaughterhouses systematically developed their production facilities during the years of centralisation. Membership drives were held and a sales on account system introduced which became essential in livestock purchases during the 1960s. MTK became the slaughterhouses' main partner.

At Kuortane, conflicts between the producers' slaughterhouses and Karjakunta emerged in the sale of sausages by cooperative stores. The local producers' association wanted them to sell only the products of the regional slaughterhouse, but since the range could not be restricted to this brand alone, some of the producers became clients of the local private Kesko Group store, which of course prominently displayed their products.

## Nationwide cooperatives

During the early years, the Pellervo Society did not encourage its members to cooperate in forestry, and no such organisation came about spontaneously. Neither did the forest owners' society Metsäliitto, founded by Pellervo in 1921, lead to cooperation in Kuortane, despite the strong local tradition of cooperation. The local cooperators were concerned with forest reserves. "Let more and more farmers understand that they can make money elsewhere, not just from the forests", was one comment from the early 1900s. Despite criticism logging continued and more timber was sold each year.

The origins of the Kuortane forestry cooperative lay in the advisory work carried out by the local farmers' society in 1906, although a forestry association was not established until thirty years later. It launched joint sales of timber, which were expected to offer a bargaining position to those forest owners who suffered from the arbitrariness of private buyers. In 1954 the Kuortane forestry association entered into an agreement with Metsäliitto. Cooperation had already begun in the association's early years through the regional office of MTK. In the 1960s it obtained promises from the forest owners that they would only sell their timber to Metsäliitto. Eighty per cent of all Kuortane forest owners agreed to this and the forestry association began to trade on behalf of Metsäliitto.

In the early years of consolidation, the retail cooperative societies continued to sell eggs to Munakunta. The limited egg trade in Kuortane was still organised through the local society, which remained a member of Munakunta until the regional merger. In the mid-1950s, MTK decided that the egg trade should be producer-oriented and so Munakunta's rules were changed to permit only egg producers to join. When SOK responded by packing and pricing eggs competitively, collaboration between the cooperative societies and Munakunta soon finished. Despite this, most of the societies remained members, although they provided only some two per cent of the eggs sourced by Munakunta.



## THRESHERS AND HANKKIJA



Threshing machines were one of Hankkija's main lines. Paraffin fuelled the ignition bulb motor used to help in threshing.

In the early years of farm mechanisation, a cooperative proved to be the most intelligent way of acquiring expensive machines. Pellervo advisers farmers on how to set up a threshing machine cooperative. The first ones had to be wound by hand. A belt connected the engine to the thresher. The next stage were the traction engines of the type in this picture from the early 1930s.





Threshing machines were still in general use in the late 1940s, and harvesters did not arrive until the following decade. One of Hankkija's most successful models was the Massey Harris 630 introduced in 1956. As these were difficult machines to use and maintain, training was arranged by Hankkija. Modern harvesters are very labour saving.





## Local cooperation

The wave of rationalisation did not bypass the local credit societies. The number fell from around one thousand in the late 1930s to less than four hundred in the early 1980s. OKO did not, however, seek to establish provincial or regional central banks but to merge the small local societies. Kuortane's two credit societies were merged in 1951. Thanks to the new law, credit societies legally became cooperative banks in 1970 and no longer made special mention of farmers in their policies, but appealed to all. The Kuortane bank also now lent money on a more or less equal basis to farms, businesses and private individuals.

While almost everything else in society was expanding and centralising, the insurance associations remained local in character and their managements personally acquainted with most of the customers. A combination of a local and nationwide organisation was established with the local associations as its basis. For many years, insurance sales at Kuortane followed the same course as in earlier decades. The biggest change was the conversion of the insurance association from a semi-municipal institution into a business enterprise. Although Pellervo's Vakava increased sales throughout the country, the Kuortane insurance association did not join until the merger of the Kuortane private reinsurance company with Vakava in 1981.

In the early years the Kuortane farmers' society still owned large quantities of farm implements and machines. The joint purchasing of machinery dwindled as the old steam and petrol-powered machines were replaced by smaller and cheaper models. The introduction of combine harvesters led to a new wave of cooperatives. Although following cooperative principles, they were not always properly registered. The new form of cooperative was a free association of farmers to buy machines, which were then rented out among them.

## The role of transport and technology

The educational work of the Pellervo movement was so effective that by the 1930s technology had become a greater obstacle to progress than the farmers' know-how, but even so it could not shorten distances in the countryside. The decisive factors during the years of cooperative consolidation in shaping the local economy were advancements in the transport infrastructure and new production technologies. At first, the dairies were built where the milk was produced, as it could not be transported very far by horse-drawn cart. Also the cooperative store had to be established close to its customers, and shops competed more on the basis of availability than price. Transport systems were hotly debated because milk would get warm long before it reached the dairy.

The retail society was the first to use motor transport, buying its first lorry in the 1920s and establishing its own petrol station in the early 1930s. The dairies, however, relied on horse-drawn transport for another twenty years, mainly because of the poor condition of the roads. During the 1950s state transport subsidies and road improvements permitted the use of lorries to transport milk so the collection areas grew tremendously in size. In the 1960s, tractors replaced lorries, but milk was still transported to the dairies in various ways: by horse, pushcart, bicycle and sledge.

One major innovation in the late 1960s was the farm milk storage tank that was emptied by a tanker truck. The regional dairy began to pay higher prices to those dairies whose trucks delivered the milk directly from the farms. This proved to be a good incentive and in the early 1970s the Kuortane dairy, in partnership with a neighbouring one, bought a tanker. A refrigerated milk tank was an expensive investment requiring considerable annual production. The collection of milk from tanks speeded up the process of farm rationalisation, as smallholders either had to stop producing milk or increase the number of cows.



While transport technology permitted a network with fewer production facilities, another process with a similar effect was under way. The machinery for processing and retail packaging large quantities of milk was too costly for small cooperative dairies.

## Provincial operations

Transportation and technology, as well as the growth in farm size and output, led to the consolidation of producer cooperatives. Profitability in turn called for the mergers of cooperative societies and banks. Throughout the 1960s and 70s Finnish society was characterised by its idealisation of all large-scale institutions and operations.

The traditional local community was becoming a thing of the past, being superseded by the national perspective channelled through the provinces. The province now became an integrated area of activity whose agricultural organisations had closer contact with the farmers than the national institutions. The provincial network of cooperation and agricultural production included the retail cooperative societies, their supervisory and educational organisations, the central societies, the provincial farmers' association (later the agricultural centre), and allied specialist associations. This complex also included a number of agricultural companies.

The cooperative dairies would, for example, decline to attend national meetings if funds were scarce, but they would regularly take part in the provincial and regional meetings. The local cooperative societies and banks would also arrange staff training and guidance. Regional cooperation also involved membership in the provincial cooperative slaughterhouse, which the local producer associations learned to regard as their own. The provincial aspect was also underlined when a local wood-processing plant was established. "When timber is removed from the province to be processed elsewhere, large sums of money go with it into other hands".

In spite of the prevailing trend, there was still considerable confidence in local cooperation around which a solid network had been built during the early decades of the century. This continued during the period of consolidation.

The farmers' societies had been the main organisations during the early years, but they began to wane and their meetings became increasingly formal during the 1940s. There were fewer meetings held during the following decade and activities largely focused on the renting of machinery and arranging social get-togethers. Even the joint purchase of machinery gradually decreased. The Pellervo Society's relationship with the farmers' societies was mainly advisory. Now that hardly any new cooperative ventures were established, the Society stood aside from local cooperation and concentrated on the central societies.

The journals and magazines were still the Society's main contact with the cooperatives; Pellervo, for example more than doubling its readership. There were also courses for cooperative managers and meetings to which representatives were also sent from Kuortane. The Society continuously supplied model rules and its market surveys permitted the cooperatives to keep track of developments. Pellervo sought a functioning outlet to the rural areas, and on several occasions between the late 1920s and the early 1940s it planned to establish local branches to bolster cooperative unity and act as its representatives. These failed due to the lack of local interest.

## The emerging bond among producers

The decline of the farmers' societies showed that the focus of agricultural activity in the rural areas had shifted elsewhere. The great period of popular enthusiasm and education was now a thing of the past, and the cooperatives were now marked by a strengthening of their producer identity and group interests. The original goal of

the Pellervo movement of a united and politically aware countryside defending its own interests had been achieved. Whereas the Society had helped all groups of farmers, MTK defended the interests of the newly homogeneous one. In accordance with Pellervo ideals, MTK linked the local and national organisations and subscribed to the comprehensive policies of the Pellervo movement.

The producers created an efficient vertical network for decision making that took over the former central role of Pellervo and other advisory organisations in rural policies. Cooperation began to conform to the producers' views. Ideological cooperation was now replaced by collaboration in terms of the collective interest. It was even proposed in the 1960s that the Society become a department of MTK.

The enrolment of the Kuortane farmers in the producer organisation was a long and complex process. In 1916 a representative was sent to Helsinki to demand higher ceiling prices for butter. Although butter prices were important, the Kuortane farmers left the problem of collective bargaining to Helsinki and never bothered to send representatives to the foundation meeting of MTK in 1917. The setting up of a local producers' organisation was discussed at many meetings of the farmers' society, and in 1922 a local branch of MTK was established at Kuortane. It was not very active during the 1920s and 30s. The producers' district association instead handled regional and provincial issues and distributed information on the overall situation in Finnish agriculture.

Nationally, MTK served the interests of Finnish agriculture on a broad front during the interwar years. MTK, whose influence was largely based on expertise and political contacts, gradually developed into a mass organisation, and by the 1930s one freeholder in four was a member. During the years of cooperative consolidation, MTK became the leading economic organisation for the farming population and a completely new era also began in Kuortane. "The crises in farm policy during the autumn of 1947 and MTK's role in them... united the membership". In the 1970s, 90 per cent of all farms in Kuortane belonged to the organisation.

Although MTK never gained millions of members, it wielded greater power than the cooperatives due to its close links to the system of income and economic policy making. The rhetoric of producer meetings would often paint conflicts between the farmers and the rest of the nation.

The adoption of a producer spirit and the "closure of the countryside" were promoted by the strong traditionalism of farming and social networking. As surplus production and its resulting costs aggravated conflicts between wage earners and farmers, and the debate became more inflamed, the basis was laid for a solid united producer front.

Since its foundation, MTK maintained that cooperation was the best way to organise agricultural production. In the late 1940s, the organisation approved the principle of producer-oriented central commercial organisations in order to keep control in the hands of the producers. Membership drives were invariably successful and farmers learned to be "loyal to their own organisations". Those who bought or sold produce outside the cooperatives were criticised and regarded as disrupting the producers' front. Pressure was also applied to ensure unity.

Politically, Kuortane favoured rural-oriented, bourgeois cooperation, which had a long tradition in the area. The formerly strong support for the Conservatives declined to approximately one third of the ballot, while the Agrarian Union / Centre Party received roughly half. The leading role of the Centre Party in national politics, and the party's close links to MTK, also influenced the political affiliations of farmers.

## New style membership

Once the cooperatives became established institutions it was typical for members to clearly identify themselves with them. Technological developments reinforced this attitude. Farmers who had chosen a specific form of production had to invest so much in buildings, machinery and

equipment that the marketing of goods and produce had to be guaranteed. This also meant that small producers were eliminated. The cooperatives and the producer associations also tried hard to tie non-members to the cooperatives.

The level of activity among members was as high as in the early years, and there was a strong team spirit. Members undertook a great deal of voluntary work and donated materials and supplies to the cooperatives, but only roughly one fifth of them attended meetings. If things went well and there was no reason for concern, they placed their trust in the members of the boards who were repeatedly re-elected. But if important issues arose, then they attended *en masse*.

The cooperatives carried on the educational activities of the early years. The feeding of cattle, for example, was now highly technical, and farmers were taught to prepare the correct amount of feed in terms of energy, protein and mineral content. There was also support for cattle breeding.

The main task of the cooperative dairies was still to improve quality. This was done, as before, by holding lectures, courses, outings, competitions and exhibitions, and even by subsidising subscriptions to trade journals. The advisors from the dairy's supervisory association instructed farmers in improving cow shed hygiene and refrigeration. The main incentive to improve milk quality was a substantial difference in pricing based on state-regulated grading. Farm milk tanks and refrigeration considerably improved the quality of milk. The introduction of grading in meat and eggs followed a process similar to the dairies. As a result, the quality of farm produce

improved, it was more efficiently produced with less labour but more machinery.

Towards the end of the period of consolidation, cooperative enterprises faced a completely new challenge: how to arrange relations between the organisation and its members. The provincial cooperative would inevitably be something more distant than a local plant. Cooperatives were also large organisations, and it was difficult to hold general meetings. A new form of decision making was required. The people elected to the councils of representatives and boards of directors were locally prominent and involved in many projects. They were trusted and their opinions respected. The locality, however, could no longer be the starting point in decision making. It was necessary to find solutions that would combine the interests of the producers and the cooperative. The dimension was now provincial, national, or even international.

The large cooperatives also invested in member relations in other ways. Special functions and outings were held, and specialist magazines and journals published. Although women in management were still conspicuous by their absence, they were involved as producers and consumers. Towards the close of the 1940s the retail societies established women's committees which proved to be useful forums for presenting new products and persuading housewives to buy Finnish goods.

All provincial cooperative enterprises disseminated information, something they were better equipped to do than local societies as they had more money. Their annual reports were prefaced by a detailed review of the Finnish economy, crop prospects and other issues related to agriculture.





## The Finnish Cooperative Development Centre FCC in the Baltic states, Poland and Russia

### *From planned to market economies: Cooperatives in transition*

In the 1990s, the economies of the Baltic states and neighbouring countries, such as Poland and Russia, have undergone massive changes. With the rapid liberalisation of their markets, these countries have been transformed into true market economies. However, the process of privatisation of state enterprises and agricultural land varies considerably from one country to another. At the moment, Poland and the Baltic states are showing a steady economic growth.

Many Finnish cooperatives have sales operations in the Baltic states, Poland and Russia, and some have even set up production facilities in the area. One of the objectives of the FCC is to operate as a service organisation for the Finnish cooperatives in promoting their activities in the area by offering professional consultancy services in the planning and implementation of development projects. FCC expertise lies in the area of agriculture, forestry and related processing industries. It works in partnership with local companies in order to utilise their expertise. An essential part of initial project planning is to screen the available funding sources. In addition to private funding, these include the EU instruments such as Phare and Tacis and the development programmes of the Finnish government under its specialised ministries.

### *The expanding European Union*

Poland and the Baltic states applied for the membership of the European Union in 1995. The European Council confirmed the prospect of membership and set the criteria for accession,



The basic unit in food production is the farm.



From the farm to the factory.



which involve major institutional reforms, privatisation and the restructuring of state-owned enterprises, as well as the modernisation of banking and financial systems. After half a decade, much work is still required as the ability of the applicants to cope with competitive pressures has not been fully developed. Agriculture and forestry are important sources of export earnings, but considerable development and modernisation is needed to enable these countries to face the challenges of EU markets.

### *Training of cooperators*

In Estonia FCC activities began in implementing a cooperative training programme together with the Pellervo Confederation of Finnish Cooperatives, the Pellervo Institute and the Cooperative Union of Estonia. This pilot programme involved intensive training periods both in Finland and in Estonia, as well as study visits to cooperative enterprises. The approach is practical and business-oriented, with the main emphasis on cooperatives as business organisations, their viability, member benefits and role in the market economy. The programme concerns 25 participants representing the management and elected leadership of Estonian cooperative enterprises. The aim of the programme is to develop

The finished product ready for the market.



Estonian and Finnish cooperators participating in an intensive training session at the Pellervo Institute.

the professional skills of the participants so that they can meet the challenges of a rapidly changing business environment as well as to serve as a mutually beneficial forum for the exchange of ideas and information. The programme is partly financed by the Baltic Countries Fund of the Finnish Ministry for Foreign Affairs.

## THE ERA OF ENTERPRISES

Now in the late 1990s, Finnish cooperatives are in their fourth historical period. The radical movement of the early years, which centred around the freeholder elite, evolved into one systematically adapting local conditions to the market economy. This was followed by a period in which the cooperatives became part of a state-regulated economy. Now they are part of a competitive European economy.

Farming is the still main livelihood in Kuortane, and dairy farming the dominant branch since the local soil is unsuitable for cereal or fodder cultivation. The farmers realise that, in order to keep up with developments, they must increase the size of their farms, but when the future is so uncertain they are hesitant to make the necessary investments.

The present situation is a far cry from when MTK managed things. Another obstacle to expansion is that hardly any land is up for sale, largely due to sentimental attachment. The traditional ideal of the family farm as a way of life rather than a business places strict limits on enlargement. Even so, farmers still have confidence in the future provided the younger generation is prepared to carry on their work. The pace of generation changeovers, however, has been very slow. Kuortane's farmers are fully aware that the old system of taking orders from above has been replaced by private enterprise and the laws of competition. In the words of one cooperator: "We must find our place

in society both as businesses and private households. Profitability is the only basis for the cooperative. It must serve its members in the best possible way, whether they like it or not."

Despite the fundamental changes of the 1990s, such as the dissolution of the central societies and the appearance of new strategies, a large number of the people of Kuortane still believe in cooperation. It is still a difficult moral decision to sell produce elsewhere than to the regional cooperative. Members value the reliability, familiarity, steady operations and service of the cooperatives, or as one farmer put it: "They keep their word, and the choice is made."

Cooperation is based on voluntary membership and mutual trust, something which has been upheld throughout the century. Nor have the cooperatives rejected the principle of member democracy or economic participation, even though some have grown into international corporations. Although cooperation has sought its allies from among the best available, it is still a politically independent popular movement. Education and guidance have always been an important part of the work of the cooperatives and in this way they have assumed responsibility for their operating environment. Throughout its first century, the Pellervo Society, the core institution of the Finnish cooperative movement, has kept alive the ideal of cooperatives working together. This has not always been successful at the national level because different interests, producer-consumer conflicts and





regional considerations have often outweighed communality.

Cooperation is an integral feature of Finnish history and it also links a significant part of the economy to the international movement. But it is also an important aspect of the everyday life of 2,5 million Finns. One farmer from Kuortane describes the movement as follows: "Cooperation is not primarily an ideology, although this was much discussed in the past. It is the way in which people, by working together, can improve the quality of their lives and the environment." The same idea can be expressed in numerous countries and a multitude of languages.

During the 1970s, the position of women in the farming community was much discussed, not least by the Pellervo Economic Research Institute PTT and the Pellervo Society's Market Research Institute PSM (nowadays Food and Farm Facts Ltd). The amount of work performed by women on the farms had increased and help was no longer available. The traditional division of labour between the farmers and their wives was changing: women were participating in production and men were doing some of the housework. More women were working outside the farm and the traditional extended family was disappearing. During the generation changeover, parents often made room for the children by retiring to a home elsewhere.

