

FREE ENTERPRISE AND THE COOPERATIVE MOVEMENT IN MALAYSIAN ECONOMIC DEVELOPMENT

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Introduction

IT APPEARS TO be a natural law that political systems with strong laissez-faire traditions assign a prominent role in their economic structure to private enterprise. For countries like Britain which have operated an extensive colonial hegemony in parts of Africa and Asia, this economic philosophy has invariably followed the flag. As Parmer maintains, "The basic function of imperial rule, whatever its form was to establish and maintain the conditions under which the dynamic forces of capitalism could flourish" [12, p. vii]. Ameliorating this feature, however, a conscious policy bias towards British free enterprise operated in the free market mechanisms of the colonial dependencies to facilitate the demands of the metropolitan center. The intellectualization of such strategies in normative colonial economic philosophy has generated such classical formulations like Bauer and Yamey's [1, pp. 210-35], for instance, reflecting a free market rigidism in the best traditions of the Chicago School.

On the other hand, cooperation, i.e., the ideology originating in Rochdale consumerism, has been adopted as a viable alternative to project a tolerable "middle-way" between the politico-economic absolutes of capitalism and communism in the third world of Africa and Asia.¹ Three possible reasons can account for this universal solution in the emerging states:

(1) An understandable national aspiration, in the first flush of independence, to cast off the vestiges of colonialism.

(2) A national need to activate a deeper mass involvement in the socioeconomic and political processes of the new nations. Simultaneously, a convenient medium for decentralizing the concentrated government apparatus was available.

(3) The "middlemen complex" exhibited by independent governments' zeal to eliminate all vestiges of capitalistic exploitation. This sentiment has generated extremist support through the racialistic dimensions of economic exploitation that, in some instances, e.g., Uganda, has perversely borne the burden of government mismanagement and bankruptcy.

While in Africa, as Berg observes [2, p. 26], Marxist-Leninist doctrines have been a powerful determinant of anti-capitalistic strategies, in Malaysia one can hardly

¹ A classic African example is the *ujamaa* socialism propounded by Tanzania's Julius Nyerere; India and Indonesia have commitments to cooperation written into their Constitutions.

impute such an extremist view. The anti-capitalist strategy has been severely circumscribed and moderated by the definite anti-nationalization stand of government.

The purpose of this paper is to relate the conjunction of these two themes in the economic development of Malaysia or, more specifically, West Malaysia, up to the present.² The writer attempts to test the hypothesis that even when rational processes inspire the governmental apparatus to select cooperation as an anti-exploitative strategy, vested interests in capitalism, and implicitly, the capitalistic antecedents of the country have proved difficult to dismiss as irrelevant in policy formulation and implementation.

A. *The Period of Colonial Rule*

It is perhaps significant that the earliest efforts (ca. 1907) at promoting cooperation in the then Federated Malay States (comprising the states of Perak, Selangor, Pahang, and Negri Sembilan) met with little enthusiasm from British officialdom, the European planting community and strong Islamic opposition to usury (*riba*).³ By 1922, however, the official, private, and religious mood had mellowed sufficiently for the Cooperative Societies Enactment to be passed.

The role implied for the cooperative movement vis-à-vis free competition was not absolutely unequivocal. In fact, this role was modified by or varied in the (1) government policy to cooperation, (2) British investments, (3) the urban sector, and (4) the smallholding sector.

B. *The Official Policy to Cooperation*

The initiation of cooperation in Malaya closely paralleled the contemporaneous British policy of introducing the cooperative form into colonial territories, in both the agricultural and nonagricultural sectors. However, the official policy on cooperation was unequivocal: the state would not enact any environmental controls conferring a privileged role to cooperatives in the open market. The exception to this, necessarily, was the promulgation of the 1922 Cooperative Societies Enactment. The rationale of such a policy was the bureaucratic attempt to duplicate, insofar as

² An analysis on these theories in Western setting is given by G. D. Ness, "The Cooperative Movement and Industrial Development in England and Denmark," *Berkeley Journal of Sociology*, Spring 1961, pp. 1-15.

³ In 1911, Sir Arthur Young, Chief Secretary, Federated Malay States set up a committee to investigate the viability of cooperatives in the smallholding sector. A strongly negative attitude was expressed by the committee thus revealing the economic, religious, and social barriers envisaged: "We are of the opinion that the Malay of today is in little haste to grow rich, is somewhat distrustful of his neighbours, whether Malays or others, still suffers from the recollection of past evil rule, when nothing was worthwhile and saving was merely inviting attack, is not of one stock and is perhaps undergoing a painful transition from what has been called a self-sufficing domestic economy to a commercial money economy. We consider, therefore, that the Cooperative Bank System on the lines of rural credit societies could not at the present moment be introduced in Perak nor is it likely that such a system would be ever successfully promulgated among the Malays. Moreover, although it has appeared in evidence before the committee that certain Malays are in the habit of letting out money on interest in an indirect manner, it is nevertheless entirely against the tenets of the true believer of Islam to take interest on money lent out. This being so at once disposes of the system suggested to be considered so far as cooperation among Mohammedans are concerned."

was possible, the environmental conditions in which the Rochdale Pioneers evolved their activist brand of consumerism. The most significant and emphatic element of this colonial policy was the principle of financial noninvolvement to attain the ideal, if unpragmatic, "self-supporting, self-contained and self-governed"⁴ cooperative movement.

C. *British Investments*

It is doubtful whether the colonial cooperative policy was oriented to long-range goals as, for example, the "cooperativization" of the agricultural economy or the structuring of the internal distributive trade on consumer cooperatives. This could hardly have proved compatible with colonial economic policy as any such goals would soon have catalyzed a sharp confrontation with British interests in primary agriculture and the distributive trade.

In fact, and ironically enough, the proposal for a Cooperative Bank envisaged by Cavendish⁵ as the cornerstone of the Malayan national cooperative movement, was "primarily as a measure of relief for the owners of large rubber estates, whether individual proprietors or joint-stock companies."⁶ This strategy in the context of the post-World War I recession, was, perhaps, understandable, as it would have given the British planting community privileged access to a new, if diminutive, source of funds.

This strategy proved to be consistent temporally, thus strengthening the hypothesis that cooperation, far from providing a new competitive dimension in the Malayan economy, was meant to strengthen the British rubber investments. Despite its rejection by the 1921 Trade Commission, a "business and financial committee in Singapore" including representatives from the Rubber Growers' Association and the Rubber Producers' Association of Malaya came out in strong support of it. In April 1922, the Planters' Loan Board⁷ submitted a scheme to the government recommending its conversion into the Cooperative Bank of Malaya to be registered, strategically, under the Cooperative Societies Enactment. In May 1922, the proposal was rejected as the government was unable to guarantee the bank and because capital was in short supply. As an interim measure, an Agricultural and Industrial Loans Board was officially recommended to the Secretary of State for the Colonies who rejected it outright as he felt the Malayan Colonial Government would increase its liabilities, that state banks were unacceptable (probably on laissez-faire grounds), that the interim measure would compromise the creation of a bona fide Cooperative Bank and *discourage private enterprise*. Ironically for vested rubber interests, the Secretary of State for the Colonies counterproposed that the Planters' Loan Board

⁴ Quoted in [4, p. 12].

⁵ Cavendish was the Malayan civil service officer who reported on Burmese cooperation and made recommendations for a Malayan movement. He became the first director of the Cooperative Department and thus exerted a strong influence on cooperative development.

⁶ In fact, it was reported by Cavendish in 1926 that "the Cooperative Societies with \$250,000 surplus cash in hand awaiting investment were eagerly looking forward to the establishment of a Cooperative Bank" [4, p. 11].

⁷ Formed in 1915 as a financially more liberal counterpart of the Agricultural Loan Fund to provide loans to rubber plantations.

extend its operations to finance Malay's general economic development. The newly created (1925) Cooperation Board then took the initiative to report on the original proposal by Cavendish. This time favorable acceptance at all bureaucratic levels was evinced. However other considerations prevented its implementation [4, p. 11].

The introduction of Labourers' Cooperative Credit Societies (LCCS) in 1926 among the Indian labor force on British rubber plantations was not without difficulties raised by the "initial prejudices and misunderstandings which existed in the minds of both managers and labourers about these societies" [5, p. 4]. It was only in 1928 that pressure brought by a Special Labour Committee of the Planters' Association of Malaya motivated the District Planters' Associations throughout the country to support "cooperative thrift societies for the benefit of the labour forces on estates" [6, p. 4]. It is not difficult to fathom the "prejudices and misunderstandings" that the British planting community had of LCCS as they represented a primal and unique attempt to organize labor although not in the trade union sense. A potential threat to the British planter's autocratic control over his South Indian labor force was perceived and, in a broad sense, an organizational form was proposed to compete with him.⁸

In the event, these fears proved premature and without foundation as the socio-

TABLE I
INVESTMENTS BY T & L AND LCCS, F.M.S. AND S.S. 1930-39

Type of Investment Year	F.M.S. & Municipal	British Government	Dominion ^a	POSB ^b	Fixed Deposits	Total
1930	799,978	659,405	—	10,981	56,000	1,526,364 ^c
1931	965,585	249,120	—	14,104	85,700	1,314,509 ^d
1932	2,191,588	94,322	—	49,392	107,625	2,442,947
1933	2,239,306	81,170	—	177,610	102,679	2,584,177
1934	2,433,513	165,239	17,188	478,653	149,916	3,244,510
1935	3,297,279	181,037	69,426	553,283	127,500	4,228,525
1936	4,299,396	170,994	69,439	413,900	4,300	5,038,029
1937	5,033,168	335,551	101,364	833,028	5,461	6,206,848
1938	5,245,614	647,317	122,563	1,219,869	6,764	7,154,531
1939	5,535,538	1,019,511	121,931	1,233,643	2,376	8,004,357

Sources: Federated Malay States and Straits Settlements, *Annual Report on the Working of Cooperative Societies, 1930-39*.

Note: No details for Kedah and Perlis available.

^a Australian, Canadian, Indian, and Ceylon government bonds.

^b Post Office Savings Bank.

^c Excluding \$298,802 invested by S. S. Societies in 1930.

^d Excluding \$359,897.

⁸ The trade union movement in Malaysia has had strong roots in the rubber plantation sector. However, observers on trade union development have given no attention to the influence of the LCCS (the premier formal institution among the Indian labor force on estates) on the efforts to unionize it. The hypothesis is interesting and remains to be tested. For a pioneering history of the trade union movement, see C. Gamba, *The Origins of Trade Unionism in Malaya: A Study in Colonial Labour Unrest* (Singapore: Eastern University Press, 1962).

economic payoff to British planters included the following:

(1) LCCS represented an institution through which the British planter could, altruistically or otherwise, supervise the welfare of the Indian labor force.⁹ The goodwill generated by this policy was of vital importance in maintaining an obedient and "docile" labor force and contributed in some measure to the steady stream of immigrant workers from India before 1940.

(2) The control over the estate labor force was not dissipated by the LCCS. Control was actually consolidated by the strategy adopted by the Cooperative Department in working through established leadership structures in forming co-operatives. For LCCS, the estate manager or assistant manager invariably served as president or vice-president and hence exercised effective control.

(3) The LCCS orientation was more to savings than credit extension. As investments of cooperative funds were circumscribed by the Cooperative Societies Enactment, most of the superfluous reserves were channelled to colonial government bonds (see Table I).

Thus the unfounded fears of British planters of LCCS actually metamorphosed into a series of unanticipated payoffs.

D. *Urban Sector*

The excesses of moneylenders¹⁰ (and even profiteers)¹¹ among government servants generated sufficient concern to the colonial government to initiate Thrift and Loan Societies (T & L) among them. Thus, in the unorganized money market, the introduction of the Thrift and Loan Society was specifically designed to subvert the monopolistic position of the ubiquitous chettiar, pawnshop et al., and provide an alternative and competitive loan source. In comparison with the rural credit move-

⁹ "The Indian labourer in this country has a very urgent need of those benefits which cooperation can confer. At present he has few opportunities for investing his savings and is largely at the mercy of the estate shopkeeper. He can hide or board his savings or deposit them with the 'Kangany,' tindal or foreman or with the shopkeeper" [5, p. 4].

It is also interesting to note that a comprehensive history of Indian immigration in Malaya by K. S. Sandhu has virtually failed to touch upon this aspect of the welfare of Indians. See my article, "The Impact of the Cooperative Movement in Colonial Malaya, 1922-40," forthcoming in JMBRAS (*Journal of the Malaysian Branch of the Royal Asiatic Society*).

¹⁰ "Usury is a curse which has afflicted Asiatic employees of every class in all Government, Municipal and Mercantile Offices for many years and which has seriously impaired their working efficiency" [6, p. 8].

Indebtedness among the white-collar worker was apparently pervasive enough for the Straits Settlements Government to enact legislation as early as 1889. This was subsequently adopted in the Federated Malay States as the Public Servants' Liabilities Enactment under which moneylenders could not resort to the courts in order to enforce repayments of loans from government servants earning less than \$150 a month. This law proved a dead letter.

¹¹ "The Commission on profiteering pointed out the large margin which existed between retail and wholesale prices and recommended the institution of Cooperative Stores for those persons who considered that they were being charged unduly high prices for articles of food and clothing by the existing shops" (Federated Malay States, *Annual Report on Cooperative Society in the Straits Settlements and Federated Malay States up to the year ending 31st December, 1922*), p. 3.

In the event, in the pre-1940 period only about two or three cooperative consumer shops were established as the Cooperative Department was cautious in developing this branch of the movement.

ment, there cannot be imputed to the Thrift and Loan movement the long-term objective of monopolizing the urban, unorganized money market. This segment was, moreover, of little direct interest to British capital, no opposition was offered by departmental heads or the private firms.

Even in this sector the motive of government was not entirely altruistic. The pervasive indebtedness of white-collar workers had placed a heavy financial burden on the Treasury by the official "loans to subordinates" system introduced in 1906 to relieve their indebtedness. The impact of a cooperative loan source was immediate and tangibly manifested in the declining importance of the "loans to subordinates" system (see Table II). The vast quantum of cooperative loans indicated, however, that the government effort had been inadequate and the former was exerting considerable competitive power not so much in reducing general interest levels in the unorganized money market as in providing a new source of relatively cheaper loans.

TABLE II
LOANS TO GOVERNMENT SERVANTS: FEDERATED MALAY STATES, 1922-26
(\$)

Region	1922	1925	1926
Federated Malay States	18,752	11,462	4,037
Perak	3,228	314	—
Selangor	7,673	2,022	938
Negri Sembilan	3,249	—	1,344
Pahang	1,764	3,942	8,703
Total	34,486	17,740	15,033

Sources: Federated Malay States, *Annual Report on the Working of Cooperative Societies*, 1922-26.

The spinoff to government was similar as in the LCCS case. A new source of investible funds found strategic outlet in government and colonial investment (see Table I). Similarly, effective control was maintained through the Cooperative Department policy to encourage departmental heads to serve as presidents or vice-presidents of Thrift and Loan Societies.

Their success led to expansion into the commercial sector and, as LCCS, among blue-collar employees. The introduction of cooperatives among workers while it provided a unique, collective form of economic action was directed to areas in which British interests and British capital were not even remotely threatened. Even where potential indirect effects over the organization of the labor force could arise, the policy of working through the established leadership structures served to ameliorate this threat effectively.

E. *Smallholding Sector*

In the smallholding sector (based on the production of rice, rubber, and mixed crops), indebtedness was perceived as being widespread and significantly related to smallholder poverty. The introduction of Rural Cooperative Credit Societies (RCCS) was geared to the objective of attaining an alternative and cheap source of

credit utilizing farmer resources in the form of share-capital and deposits. The immediate objective of such a strategy was to generate competition in the private money market while the optimal, long-term goal was the monopolization of rural credit sources by an institutionalized credit structure based upon cooperatives.¹²

This cooperative strategy represented a primal effort by the colonial government at rural development even if the colonial concept of development was inhibited. It was felt that as agricultural development in the smallholder sector was stultified by rural indebtedness, infusions of only short-term or seasonal cooperative credit would eliminate their link to the exploitive and indigenous credit sources and, ipso facto, spur development. The dynamic role of credit to promote investment, broaden the capital base of the smallholder firm and initiate economic development was not considered and remained so up to the mid-sixties. Furthermore, this involvement in the rural economy represents a notable, if unappreciated deviation from the basic colonial strategy of "indirect rule,"¹³ which involved intervention primarily in areas of direct interest to British investments.¹⁴

To a lesser extent than in the case of the urban worker, the colonial government also had a vested interest in eradicating smallholder indebtedness and usury as an Agricultural Loan Fund had been in existence for some time.¹⁵ By 1925, it was optimistically declared that the 550 former members of the Krian cooperatives¹⁶ were no longer dependent on the indigenous *padi ratus* or *padi kuncha* integrated credit-purchase-marketing system.¹⁷ As a matter of interest, net gains in bypassing the moneylender were estimated at \$150 per farmer or \$40 per acre [4, p. 6]. With this apparent success, the old system of state loans was discontinued in areas where credit cooperatives operated as "the work can now be done by these primary

¹² Such a long-term strategy was explicitly stated in various annual reports on the cooperative movement:

"It is the aim of the Department eventually to establish a thrift and credit organization in every kampong and thus enable the raiat [*sic*] to build up their own capital and be independent of outside finance."

"The aim is to make each kampong self-sufficient in respect of its needs for short- and medium-term credit." See, respectively, Federated Malay States, *Annual Report on the Working of Cooperative Societies in the Federated Malay States and Straits Settlements for the period 1st January 1936, to 31st December 1936*, p. 21 and for 1939, p. 4.

¹³ That is, the superimposition of the colonial government apparatus on the existing Sultanate system in the Federated Malay States.

¹⁴ For a historical viewpoint, see R. Emerson, *Malaysia: A Study in Direct and Indirect Rule* (Kuala Lumpur: University of Malaya Press, 1964).

¹⁵ An Agricultural Loan Fund was set up in 1908 in Perak and Selangor to provide small loans to farmers through the district officer. As noted by one postwar report, "District Officers were authorised by General Orders to grant loans in cash to padi planters, but little use was made of this authority as most D.O.'s had found by experience that the recovery of such loans took up an inordinately large proportion of their time and the time of their office staffs and their Penghulus. There was, moreover, in many cases a suspicion that the loan applied for would not be used for the purpose stated and the District Officer realized that he had no machinery available to ensure that it was so applied" [7, p. 8].

¹⁶ RCCS were first formed in the Krian rice bowl of Perak in 1921.

¹⁷ A system whereby the farmer's subsistence and other loan requirements are obtained from a middlemen for which the collateral is the expected harvest. Operating a multilateral marketing strategy, the middlemen is able to raise consumer prices, lend money at usurious interest rates and buy, on a forward basis, rice from the farmer at depressed harvest prices.

societies with greater satisfaction, despatch and efficiency" [4, p. 9]. However, by 1927 when rubber prices were falling, the original flush of success paled and the rate of overdue on cooperative loans increased alarmingly [5, p. 4].

While credit was central to the colonial cooperative policy, the cooperative marketing of rice was not actively encouraged by the Cooperative Department for a number of reasons:

(1) The official awareness of the organizational and managerial problems inherent in marketing institutions.

(2) The pedagogical significance of establishing cooperatives with a minimum failure rate in the early stages of cooperative growth.

(3) The limited official perception of the economic structure of the rice sector in defining indebtedness as the major brake on rural development. The hypothesis was that credit was the key to the marketing system and the basis of the *padi kuncha* system. It thus became a logical extension, *following this hypothesis*, that if the RCCS could be so structured as to monopolize the rural credit market, then rice marketing problems would be a secondary complication. Beyond this stage in the marketing chain, it was implicitly felt that the forces of free competition would determine producer price without any institutional intervention.

(4) There already existed several government rice mills in the major rice areas. The need for cooperative rice milling societies was thus not so apparent.

It is significant to note, in passing, that it was not so much free competition or laissez-faire philosophy that dictated such thinking but the general disinterest that the colonial government evoked in the non-export-oriented sectors of Malaya (see [10], especially Chapter 13).

In the rubber smallholding sector, rubber marketing societies were envisaged as potentially beneficial to the smallholder (as well as, incidentally, facilitate the export of a better grade of smallholding rubber). These societies were to be based on credit cooperatives, i.e., capital requirements for investment in smoke houses and rubber factories would be endogenously generated. A whole series of technico-economic problems were anticipated by the government in introducing cooperatives into a hitherto unorganized sector.¹⁸ One of the greatest problems was the fear of the competitive strength of the rubber dealer who, more often than not, was suspected to be Chinese.¹⁹ In the event, few rubber societies were set up and even less attained any degree of success up to 1940.

¹⁸ Three Council Papers were presented to the Federal Legislative Council, two in 1925 and one in 1928.

¹⁹ Note for instance the official comments in the *Report of a Committee appointed by the Resident of Negri Sembilan on the 16th April 1925, to advise and report on the possibility of instituting cooperative societies among smallholders for the marketing of their rubber*, Council Paper No. 33 (1925): "The successful working of a scheme of selling societies would mean the gradual elimination of the Chinese retail rubber dealer. The profit made by these dealers is difficult to estimate. In outlying towns and villages away from the wholesale markets it is probably \$2 to \$3 a pikul. In central markets like Seremban and Kuala Lumpur owing to the force of competition the margin of profit is very much smaller. It should however be emphasised that the business of these dealers is essentially speculative. When they get caught by a sudden change in the market price, they must be tempted, especially in villages where the number of dealers are few and competition of little account, to recoup

F. *The Postwar Period*

Two interrelated factors initiated dramatic changes in the postwar colonial economic policy in Malaya. First, the war itself and the Japanese Occupation provoked nationalistic emotions by questioning the invincibility of the British colonial regime. The second factor responding to the inevitability of nationalistic movements in the British Empire resulted in the United Kingdom Colonial Development and Welfare Act of 1945. This act facilitated colonial investment for the general economic development of Malaya thus rectifying the historical policy bias to the export-based sectors.

Criticism of the past colonial cooperative policy by the British Fabian Society's Report on Colonial Cooperation²⁰ motivated a series of Colonial Office studies which recommended the political legitimacy of cooperation as a policy instrument in economic development.²¹ In Malaysia, two aspects of this policy are discussed. The first relates to cooperatives and rural development and the other to consumer cooperatives.

G. *Cooperatives and Rural Development*

While rural development had become a politicized issue [11, p. 100], specific policy pronouncements emphasized the relevance of cooperatives in the former process. An investigation of the agricultural credit situation²² presented the view that while smallholder indebtedness was pervasive, short-term credit was not imperative. The lack of smallholder thrift and the ubiquity of moneylenders explained this paradox. In this situation, RCCS were identified as the ideal institution to supply seasonal credit to smallholders. Similarly cooperatives without government funding could program a more rational approach to the multilateral marketing

their losses by giving unfairly low prices. It must also be remembered that Malays frequently borrow money from the dealers on the security of their crops and tend to become tied to particular dealers who are enabled to squeeze their clients and no doubt do not fail to do so" (pp. 467-68).

²⁰ The Colonial Bureau of the Fabian Society in its 1944 report roundly criticized past colonial cooperative policy and recommended the adoption of a more enlightened policy. Fortunately, the chairman of the investigating committee was elevated to Secretary of State for the Colonies in 1945 and was placed in the eminent position of implementing his findings.

²¹ (a) Colonial Office, *The Cooperative Movement in the Colonies* Despatches dated 20th March 1946 and 23rd April 1946, from the Secretary of State for the Colonies to Colonial Governments (London: H.M.S.O., 1946). Enclosures included are (1) Memorandum Recruitment and Training of Cooperative Staff, (2) Model Cooperative Societies Ordinance, and (3) Model Cooperative Societies Rules. (b) Colonial Office, *Agricultural Credit in the Colonies*, Colonial Economic Advisory Committee (CEAC), 29th April 1946, Enclosure in the Circular Despatch of 6th March 1947. (c) CEAC, *The Finance of the Cultivator Memorandum* by Sir Malcolm Darling, 23rd June 1945, Enclosure 2. (d) CEAC, *The Agricultural Credit Bank of Egypt Memorandum* by Mr. Keith Murray, no date, Enclosure 3. (e) CEAC, *Agricultural Credit Facilities in the Colonies Memorandum* by the Colonial Office, 21st September 1945, Enclosure 4.

²² [7]. It is relevant to note that the chairman of this committee was R. Boyd, the second director of the Cooperative Department. He was much influenced by Cavendish's doctrinaire insistence on the non-involvement of the Treasury in cooperative development.

strategy of the middlemen.²³ The committee recommended a broad range of governmental initiatives having an impact on future policy formulations. These included the (1) establishment of government rice processing monopolies in copartnership with cooperatives for the latter's eventual take-over; (2) provision of seeds and fertilizers on credit; (3) rationalization of landlord-tenant relations in order to provide security of tenure and rent control; (4) investigation into the processes of subdivision and fragmentation to prevent a successive contraction in the small-holder's income base; (5) qualitative and quantitative improvements in the Cooperative Department staff with obligatory cooperative instruction to all government officers involved in rural development; and (6) creation of a network of "rural development credit cooperatives" in the East Coast States to provide an integrated consumer-credit-marketing link.²⁴

A second major document was the Draft Development Plan (1950-55) which emphasized the resource-generative role of cooperatives [3, p. 59], acknowledged the contributions made by the 1948 Credit Committee and programed the creation of the Rural and Industrial Development Authority (RIDA). Rural Malay poverty was attributed to "deficiencies in organization" itself reflecting essentially the economic exploitation by non-Malay merchant-moneylenders [11, pp. 125-26]. In August 1950, RIDA, operating on the strategies of integrated development and self-help, was launched with a \$5 million revolving fund. RIDA loans to rice farmers were channelled to the gradually expanding network of cooperatives (see Table III). However, by 1953, it was acknowledged that its resources were insufficient to meet the effective demand for rural credit and by 1955, its role in cooperative development was substantially diminished.

Direct finding to cooperative schemes provided the precedent to the \$5 million seasonal cooperative credit scheme in 1955, itself recommended by the 1956 Rice

TABLE III
ALLOCATION OF RIDA LOANS THROUGH COOPERATIVES, 1951-54 (\$)

Type of Loan	1951	1952	1953	1954
Seasonal credit	200,000	700,000	926,650	1,395,000
Rice milling	—	3,500	12,000	2,000
Coconut oil processing	20,000	4,100	—	—
Fish marketing	—	38,000	32,500	—
Rubber marketing	—	20,000	13,750	—
Consumer shops	40,870	—	13,000	—
Farming	—	—	14,000	3,000
Transport	10,500	—	—	—
Total RIDA allocation on all projects	582,964	n. a.	4,777,194	1,853,756

Sources: RIDA, *Annual Report*, 1952-54.

Note: Some loans were also allocated in 1955-56 but no figures are available.

²³ It is pertinent to observe that the perception of the colonial government of the process of rural development had changed with the broadening of its understanding of the rural economic structure.

²⁴ The committee felt that indebtedness was virtually nonexistent in the pure subsistence economy of the East Coast States.

Production Committee investigating the economic repercussions on the primary producer of a reduction in the guaranteed minimum price for *padi*.²⁵ Its other term of reference pertaining to the uneconomic level of returns to rice farmers, elicited its major finding, concurring with the International Bank for Reconstruction and Development (IBRD) [8, pp. 80–81] and the Thomson Report [14], implying the opportunities of exploitation in the multilateral strategy of the rice middlemen. The economic solution was to provide a linkup of the monofunctional cooperatives as a parallel and competing infrastructural system to that operated by private trade. Medium and long-term credit were necessary preconditions as well as a government rice marketing monopsony or, alternatively, an extended cooperative rice marketing system.

Thus official and international support was generated for the cooperative linkup strategy as a fundamental basis of the rural development policy of the 1955–63 period.²⁶ The cooperative seasonal credit scheme was theoretically complemented by the Banking Union-Cooperative Apex Bank structure.²⁷ The Cooperative Apex Bank became the agency diffusing government funds to various cooperative projects. In 1957, due to an opposition party (Party Negara) proposal, a \$3 million fishing aid scheme to diffuse technology to fishermen in order to raise their productivity was initiated [13]. In 1959, a *padi* purchase scheme was implemented providing funds to finance the purchase of *padi* directly from rice farmers. In the same year, a fertilizer supply and distribution scheme was launched to provide rice farmers with fertilizer to increase productivity. Rice milling and marketing unions were established and cooperative rice monopsonies empowered to operate in three major rice producing areas.

The final link in the cooperative integrated strategy was provided by the rural consumer shop which was an outgrowth of the government-sponsored consumer shop scheme (discussed later).

The cooperative linkup strategy thus aimed at increasing the range of market alternatives to the smallholder in an effort to intensify the level of competition in the rural economic structure. The RCCS, as in the colonial period, provided a competing source of short-term credit in the rural money market at relatively low interest rates. The marketing cooperatives created an alternative outlet for the farmer who normally would have patronized the rice dealer. Further along the market chain, both productivity and competitive considerations were the underpinnings of the cooperative milling functions. Similarly, the fertilizer and fishing aid schemes attempted to create an alternative, institutional source of inputs to

²⁵ *Final Report of the Rice Production Committee, 1956*. The \$5 million allocation was provided under the *Interim Report of the Committee*. See, *Statement of the Federal Government on the Interim Report of the Rice Committee* together with the *Interim Report* of that committee (Council Paper No. 28 of 1955).

²⁶ Two other documents provided further expert justification for the cooperative strategy. See, report by B. J. SurrIDGE, *Adviser on Cooperation for the Secretary of State for the Colonies, on Cooperation in the Federation* (Council Paper No. 2 of 1950 and Council Paper No. 41 of 1953).

²⁷ For further amplification of this statement see my article, "Cooperative Structure in West Malaysia," in *Yearbook of Agricultural Cooperation, 1972* (Oxford: Basil Blackwell, 1973), pp. 198–217.

compete with traditional suppliers. Rural consumer shops were designed to duplicate the middleman's merchandising function. An extension of this strategy of increasing the number of economic participants in the rural input-product markets, was the utilization of state licensing powers to administratively remove all private competition to the cooperative rice milling and marketing unions in three regions.

In effect, the cooperative linkup strategy projected a broad plan to gradually base the rural economic structure on cooperative units. The Cooperative Department was charged with the function of "cooperativizing" the rural economy and, became, in the process, the de facto rural development department succeeding RIDA.²⁸ Two basic weaknesses existed in the whole strategy. The various cooperative projects suffered both administrative and economic setbacks thus reducing significantly the economic efficiency of cooperative operations and their competitive power vis-à-vis the rural middlemen. Secondly, the linkup strategy was neither spelled out nor implemented. Administrative difficulties were the main constraint, a result of the irrational policy expectation that the Cooperative Department bureaucracy could execute the complex planning-administrative-managerial functions. Nor was there any attempt to coordinate the cooperative projects with other authorities involved in rural development (for instance, the Agriculture Department, Drainage and Irrigation Department).

Outside the economic-administrative framework, the major factor contributing to the disavowal of the cooperative strategy after 1963 was the intensity of the political conflict at cabinet level projected by cooperative-middlemen antagonisms. However it was not at the farmer level that the antagonisms developed into an intra-cabinet conflict: it was the issue of the cooperative monopsonies in Sabak Bernam, Tanjong Karang, Malacca, and Krian-Selama that focused the conflict with the big private rice mills. Exacerbating this strain and its communal associations, was the political infighting between the minister of agriculture and cooperatives and another leading candidate for succession to cabinet leadership. The politics of accommodation doomed the cause of the former contender who soon lost his portfolio. Simultaneously, the political dynamism invested in the "cooperativization" concept was removed.

H. *Consumer Shop Scheme*

The postwar market for consumer commodities was extremely unstable and characterized by short supplies of basic necessities, high prices and allegations of speculative, hoarding and exploitation on the part of private traders. By 1950, the Korean war boom accentuated the postwar inflationary tendencies in the consumer market sufficiently for government to override the protests of private traders by funding the Malayan Cooperative Wholesale Society (MCWS) and a large number of hastily created local consumer cooperatives.²⁹ Government administration proved unwieldy and inflexible and given the emergency situation, credit purchases to supply both local societies and individual members became an invariable busi-

²⁸ A development given little emphasis by Ness [11, p. 225].

²⁹ Over 1948-52, the number of local consumer cooperatives increased from 10 to 231.

ness policy. When the immediate causes of the inflation gradually disappeared, the relevance of the consumer shops was lost to the public. Many shops were forcibly liquidated incurring large losses and the MCWS itself was subject to massive "write-offs" on its government loans.³⁰ The semi-government attempt at price control and rationalizing the consumer distributive system was quietly abandoned.

I. *Institutional Developments in the Post-Cooperativization Phase*

One trend away from the unilateral cooperative strategy after 1963 was the institutionalization of the growth process by creating specialized development bureaucracies. In agricultural development strategy, the Federal Agricultural Marketing Authority (FAMA) was one of the prototypes covering virtually all smallholder crops (except rubber) and vested with extensive powers including the creation of regional marketing boards or monopolies.³¹ A plethora of similar bodies have followed including the Padi and Rice Authority,³² Fish Development Board,³³ Agricultural Bank, and Rural and Industrial Smallholders Development Authority.

The development bureaucracies mentioned above indicate an apparent anomaly in policy-making in removing, for example, regional cooperative monopolies and replacing them with para-statal organizations executing similar functions. Two factors could rationalize this situation:

(1) Political control over para-statal organizations is easier to maintain because of the formal relationship between the director-general (a civil servant) and the chairman (invariably, a politician) and the minister responsible. Thus, through a deliberate policy of centralization of powers (*vis-à-vis* say the cooperative strategy) any abreactions arising between the governmental bureaucracies and private trade is removed from the level of the rural producer and, by extension, the rural vote.

(2) Bureaucracy-private trade conflicts are easier to contain politically because of the closer administrative linkage to the cabinet. Since it is a reasonable assumption that the plural associations of farmers and capitalists find articulation at cabinet level (as the highest policy-making body), any conflicts are swiftly displaced and subject to the processes of intra-cabinet compromise.

A third significant trend has been the delicate nuances in government policy from 1955 onwards particularly in the prime area of farmer private trade conflict—rice marketing and processing. Compared to the cooperativization era in rural

³⁰ A total of M\$1,138,483 was written-off.

³¹ L. J. Fredericks, "Marketing Boards and Prospects for Malaysian Agriculture," *Journal of the Economic Association of Malaysia*, Vol. 3, No. 1 (June 1966), pp. 41-50. Established in 1965 to improve the efficiency of the agricultural marketing system, several regulatory schemes were formed not only covering rice but fish, pepper, and coffee. It is pertinent to note, in the light of the foregoing discussion, that the creation of a full-fledged marketing board was resisted in the Krian area in which a cooperative monopoly existed for a short while only.

³² The authority was recently created to "coordinate the various aspects of production, processing and marketing of padi and rice." It would appear to cover somewhat the same portfolio of functions as FAMA and, in fact, because of its location in the Prime Minister's Department has extremely wide powers to fulfill its functions. These powers are being sequentially tested in the inflation current in Malaysia today.

³³ Also a new creation covering a product once the purview of FAMA, fishing cooperatives, and fishermen's associations.

development policy, the following quotation reveals the extent to which government has modified its philosophy to capitalism:

The marketing problems of Malaysian smallholders remain an important concern of Government. The approach to these problems could range from extensive government control, with active involvement in the buying and selling of farm products, restrictive licensing and other enforcement measures, to completely free markets with very disparate economic power between a few organized buyers and numerous unorganized sellers. Mid-way between these extremes is limited Government intervention on an *ad hoc* basis—depending upon e.g., market problems and characteristics of particular commodities—in order to ensure the orderly and efficient working of market forces. In the latter case Government emphasis is upon the provision of physical facilities for orderly marketing, the free flow of information between buyers and sellers, workable and adequately supervised systems of grades and standards, and, where deemed necessary on the basis of thorough market studies, limited involvement by Government or its representatives in the buying and selling of farm commodities. *This approach focuses upon the means to encourage more efficient performance by private traders, not their displacement. It is the cornerstone of Government's philosophy toward agricultural marketing problems.* (italics added) [9, p. 54]

Conclusion

The process of economic development in Malaysia has clearly been shaped by the conflict between the cooperative and capitalistic ideologies. The conceptual dichotomy and its pragmatic dimensions were easy to maintain in the colonial period because of the absolute colonial bureaucratic control over the country. Thus cooperation was encouraged in areas and in the execution of functions where British free enterprise was not even remotely threatened although it influenced "local" competition in the unorganized money market.³⁴ As we have indicated, a fairly significant socioeconomic spinoff accrued to the colonial government and British private trade.

The post-independent stage saw a head-on collision reflecting a national desire to involve the people in the processes of economic development³⁵ and a universal belief in the dysfunctions of capitalism. The ideological issue was made complex by the racialistic attributes in the distribution and ownership of national wealth, the maldistribution of national income and attempts to project a strategy of economic nationalism.³⁶ Thus the issue and dilemma was an abstraction of economic and, more significantly, political considerations.

Nationalistic and racialistic emotions thrived upon the dysfunctions of capitalism,

³⁴ For a comprehensive treatment of this theme in the setting of the Malayan economy, see T. H. Silcock, "The Economy of Malaya Relevance of the Competitive Laissez-faire Model," in *Economic Systems of the Commonwealth*, ed. C. B. Hoover (Durham: Duke University Press, 1962), pp. 329–73.

³⁵ What Peter Worsley terms the principle of mediation (or decentralization) to achieve the objective of populist involvement in development. See "Two Blades of Grass Rural Cooperatives," in *Agricultural Modernization*, ed. P. Worsley (Manchester: Manchester University Press, 1971), especially pp. 11–40.

³⁶ A good treatment of this subject within the Malaysian context is given in F. H. Golay et al., *Underdevelopment and Economic Nationalism in Southeast Asia* (Ithaca: Cornell University Press, 1969), pp. 341–89, and R. A. Freeman, *Socialism and Private Enterprise in Equatorial Asia—the Case of Malaysia and Singapore* (Stanford: Stanford University Press, 1968).

particularly its economic inefficiency in the distribution of regional or sectoral incomes, inputs, and products. Some researchers are however adamant that the agricultural factor-product markets are efficient within the definition of their provision at minimum costs, i.e., implying that supernormal or exploitative margins associated with monopolists or oligopolists are more the exception than the rule.³⁷ Attempts, then, to cooperativize such an economic milieu would exert heavy strains on a relatively new institution in which the optimum mix of social, financial, and managerial inputs is difficult to quantify. Unless heavy government subsidies are available, cooperatives will have to operate on a level of economic efficiency comparable to the private trading system.

Political expediency appears to have been more significant in the resolution of the cooperative-capitalistic conflict. In a democracy, this is an invariable mode of solving potentially explosive issues by utilizing formal and informal political structures. Even if the emotive appeal of cooperation was based on solid economic criteria, it is doubtful that the economic calculus would have superseded political expediency. It is only when the emotive content, economic bases, and the dominant political attributes are fortuitously in conjunction that any particular socioeconomic system can be a viable alternative to capitalism as a pillar in Malaysian society.

³⁷ One important theoretical work in this field is A. Bottomley's *Factor Pricing and Economic Growth in Underdeveloped Rural Areas* (London: Crosby Lockwood & Son, 1971). See also, inter alia, "The Conflicting Viewpoints on Cooperative—Private Trade Efficiency," in *Agricultural Cooperatives and Markets in Developing Countries*, ed. K. R. Anschel, R. H. Brannon, and E. D. Smith (New York: F. A. Prague, 1969), and *Markets and Marketing in Developing Countries*, ed. R. Moyer and S. C. Hollander (Illinois: R. D. Irwin, 1968).

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