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**Report of the**  
**ICA Commission on**  
**Co-operative Principles**  
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# Report

## of the ICA

### Commission on Co-operative Principles

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## FOREWORD

Various forms of co-operation have existed from the very beginnings of the human race, but it was the pioneers of Rochdale who worked out their aims and purposes, and committed them to paper in a form which identified nine specific rules and made possible the evolution of seven Co-operative Principles. These came to be known as the Rochdale Principles and they have guided the formation, development, and identification of Co-operatives throughout the world ever since.

From 1931 to 1934 a Committee of the International Co-operative Alliance studied the "Present Application of the Rochdale Principles", more especially with a view to assisting the ICA authorities to determine their precise application when identifying a Co-operative of any type, from any part of the world, as being eligible for membership of the ICA and in consequence being considered a true Co-operative, suitable for membership of the World Co-operative Movement.

The Committee made its first report to the Congress of 1934 and, after studying further information from co-operatives of all types, made its final report to the Congress of 1937. As a result of this report, the International Co-operative Alliance recognised seven Rochdale Principles, but concluded that only four of these could be applied universally at the international level for purpose of ICA membership. These four were: voluntary membership; democratic control; distribution of surplus to the members in proportion to their participation in the transactions of their society; and limited interest on capital.

The ICA Congress of 1963 decided to instruct the Central Committee to appoint a Commission to examine the present application of co-operative principles in different types of society and in different political and economic spheres and to advise on the right formulation of co-operative principles in the light of their application throughout the world at that time. In March 1966, the Commission reported to the Central Committee, which referred the full report to the 23rd Congress in Vienna in September 1966, together with a resolution incorporating the main recommendations of the Commission as summarised at the beginning of Part III of their Report.

The Report and the Congress Resolution are the subject matter of this publication.

It is the responsibility of the world organisation of co-operatives, namely the International Co-operative Alliance, to consider the essential characteristics of co-operatives which enable them to be identified from other organisations. If any confusion exists, the ICA will endeavour to clarify the issue. Any single pronouncement on Co-operative Principles should therefore be viewed historically in this light as a description of Co-operative Principles and their application at the time of study. If national co-operative movements find any difficulty of definition or interpretation, they should advise the International Co-operative Alliance whose authorities will endeavour to ensure that proper studies are carried out and satisfactory advice and definitions given.

The records of the Committee of 1931 to 1937 and of the Commission of 1963 to 1966 and all the evidence submitted to these bodies are available for study at the headquarters of the International Co-operative Alliance. Not only the staff of the ICA, but research workers from national co-operative movements will have every facility for using this material, when practicable, photocopies of important material can be supplied at cost price on request from affiliated organisations for use by their research workers. Important material on Structural Changes in national co-operative movements is also available at ICA headquarters and may frequently be of use to students or research workers on Co-operative Principles.

Director, International Co-operative Alliance.

# The International Co-operative Alliance 1895-1970

by **W. P. Watkins**

This volume of ICA history commemorates the 75th Anniversary of the International Co-operative Alliance tracing its evolution from its first manifestation as a phrase on the lips of a few 19th century co-operators to its present status as the largest consultative organisation recognised by the United Nations with over 250 million adherents.

The first chapter shows how the idea of the ICA arose out of the growth of co-operative association at local roots through national organisation to international level to be finally realised when the basis of its constitution was laid at the London Congress of 1895.

The second chapter traces the development of the ICA's democratic constitution its efforts to recruit members hold them together and devise effective administrative organs and working methods in its first fifteen years.

The third chapter relates the struggles of the Alliance to maintain its existence and keep on its proper course amid the successive wars political revolutions and economic depressions and upheavals which shook the world between 1914 and 1945.

The fourth chapter outlines the growth of the ICA its expanding activities in the newly-developing regions the development of its auxiliary technical economic and financial organisations from the start of a new era of international collaboration inaugurated by the Charter of the United Nations in 1945 to the opening of the United Nations Second Development Decade.



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## Part I. INTRODUCTION

### a) Composition, Meetings and Procedure of the Commission

The Commission on Co-operative Principles was set up, at the request of the International Co-operative Congress at Bournemouth, 1963, by a resolution of the ICA Central Committee which met at Belgrade from the 3rd to 5th October, 1964.

On the recommendation of the Executive Committee, the Central Committee appointed five members to serve on the Commission, as follows:

Mr A. Bonner	Senior Tutor, Co-operative College, Co-operative Union Ltd, Great Britain and Ireland.
Mr Howard A. Cowden	Member, Board of Directors, Cooperative League of the USA.
Professor Dr R. Henzler	Director, Institute of Co-operation, University of Hamburg.
Professor D. G. Karve	Chairman, ICA Advisory Council for SE Asia.
Professor I. Kistanov	Professor, Economics and Co-operation, Moscow Institute of Peoples' Economy.

In December 1965, Professor Kistanov, acting on medical advice after a severe illness, did not attempt the journey from Moscow. His colleague, Professor G. Blank, Head of the Department of Economics, Moscow Co-operative Institute deputised for him at this and at subsequent meetings.

The Commission held its first meeting at the Headquarters of the ICA in London on the 15th and 16th December, 1964. Professor D. G. Karve was elected Chairman, to preside over the meetings and deliberations of the Commission throughout.

Secretarial services, it was decided, should be provided from the Secretariat of the ICA under the direction of the then Director, Mr W. G. Alexander, who was asked to enlist the services of a rapporteur to assist him in the drafting of the Commission's report. Accordingly Mr W. P. Watkins, formerly Director of the ICA, was commissioned to undertake this function.

The plan of work of the Commission provided, first, for the collection and analysis of information relating to the present observance of the Principles of Rochdale as formulated in the Report adopted by the ICA Congress at Paris in 1937. It was agreed that this purpose would best be achieved through the issue of a questionnaire to the ICA's affiliated Organisations, as well as to selected non-member Organisations and individuals well-known for their wide acquaintance with the Co-operative Movement and their acknowledged position as exponents of Co-operative ideas. On the basis of proposals submitted by members of the Commission a questionnaire was drafted by the Secretariat and, after approval by the Commission, was circulated on 1st June, 1965.

The final date for the receipt of replies by the Secretariat was fixed at 31st August, 1965. Although a large number of replies were received by that date, many others continued to arrive in succeeding months until the total actually exceeded 100. As they were received, replies were copied, translated when necessary, and circulated to the members of the Commission. The information, opinions and fresh suggestions they contained represented a large sample of the ICA's affiliated Organisations, a number of which brought their own affiliates into consultation. This material gave the Commission a useful insight, not only into the extent to which the Rochdale Principles were actually observed at the present day, but also into the reasons why co-operatives of different types considered it impossible or inexpedient in certain cases to apply them in practice.

The Commission held a second series of meetings, partly at Helsinki from the 18th to 22nd September, and partly at Moscow from the 24th to 26th September, 1965. As Helsinki was also the venue of the Central Committee of the ICA, it was possible to arrange a number of interviews at which the Commission was able to hear the opinions of leading Co-operators from American, Asian and European Co-operative Movements on questions which ranged over the whole field of its investigation. At Moscow the Commission had the advantage of a meeting with the President and Board of Centrososyus, and of hearing their explanations of various features of Co-operative activity in the USSR.

The Commission entered upon its own discussion of its approach to the study of Co-operative Principles against the background of contemporary economic and social life and on the significance of the seven principles defined by the Report of 1937. These discussions, begun at Helsinki, were continued in Moscow.

While in Helsinki, a further request was communicated from the Central Committee that the Commission should endeavour, by all means, to complete its work in time for its final report to be discussed by the next International Co-operative Congress at Vienna in September, 1966. To enable the Commission to fulfil the Central Committee's request, it was agreed to hold meetings in December 1965 and February 1966.

The analysis of the replies to the questionnaire was completed by the Research Section of the ICA Secretariat in November 1965 and made available to the members of the Commission before the third series of meetings was held at ICA Headquarters from the 12th to 16th December, 1965. As the Commission had had the benefit of studying the originals, summaries and analyses of the replies to the questionnaire, it was in a position to take decisions after full deliberation regarding the retention, re-formulation or rejection of the Principles adopted in 1937, together with any suggestions for additional principles offered for its consideration.

The draft report was completed and dispatched to the members before the end of January in time for consideration at its fourth series of meetings in London from the 14th to the 18th February, 1966. At this meeting the final report of the Commission was unanimously adopted.

The Commission would like to place on record its sense of obligation to the large number of co-operative organisations and individual co-operators who readily and unreservedly placed their information and views at its disposal. The trouble which some among them took to respond to our invitation to meet us in Helsinki and Moscow is deeply appreciated by us. In Finland, UK and USSR, the National Co-operative Unions, and some of their affiliated organisations, were good enough to offer cordial hospitality which enabled the Commission to broaden its understanding of conditions and views of the respective co-operative movements.

Mr W. P. Watkins, former Director of the ICA, who accepted the Commission's invitation to act as Rapporteur helped the Commission in several ways. The efficiency and the speed with which he prepared drafts of the Report for the Commission's use were indeed very remarkable. Without his assistance in this respect it would have been well-nigh impossible to produce the report within the limits of time desired by the Central Committee of the ICA.

Mr W. G. Alexander, who had been good enough to accept the Commission's invitation to act as its Secretary, in addition to his heavy duties as Director of the ICA has borne a very heavy burden, administrative as well as deliberative, cheerfully and most fruitfully. The Commission would like to make special mention of Mr Alexander's contribution towards the timely and satisfactory results of the Commission's work.



Staff and assisting members like Mr I. Williams, who recorded a verbatim statement of the deliberations, Mr V. Kondratov, who helped with Russian interpretation and Mr. J. H. Ollman and Mrs L. Stettner of the ICA Office, along with other members of the ICA staff, have helped in their respective positions very materially towards organising the Commission's work. The Commission's best thanks are due to all these.

#### **b) Terms of Reference**

The objects and scope of the Commission's investigation were first indicated in the resolution adopted by the Bournemouth Congress in the following terms:

“The Congress requests the Central Committee—

To constitute an authoritative commission to formulate the fundamental principles of activity of co-operation under modern conditions;

To empower the Commission to study which of the principles of the Rochdale Pioneers have retained their importance to the present time; which of them should be changed and how, in order to contribute in the best manner to the fulfilment of the tasks of the co-operative movements and, finally, which of them have lost their importance and should be substituted by others;

To empower the Commission to formulate new principles of co-operative activity;

To include in the Agenda of the 23rd Congress of the Alliance consideration of new principles for the activity of the Co-operative Movement;

To empower the Executive to request the national co-operative organisations, members of the ICA, to send their proposals on this subject.

To ask the Central Committee to consider the proposals of the national co-operative organisations and those of the Commission at a meeting preceding the 23rd Congress and to submit its opinion to the Congress.”

The Central Committee, after considering the request of Congress, adopted a resolution providing for the constitution and administrative arrangements for the Commission and stating its terms of reference in para. 4 which runs—

“4. The task of the Commission shall be:

To ascertain how far the principles of Rochdale—as defined by the ICA Congress at Paris in 1937—are observed today and the reasons for any non-observance;

To consider, in the light of the results of the foregoing study, whether the Rochdale Principles meet the needs of the Co-operative Movement having regard to the present-day economic, social and political situation or whether any of the Principles should be reformulated in order the better to contribute to the fulfilment of the aims and tasks of the Co-operative Movement in its different branches;

if so, to recommend a new text or texts.”

The first part of the Commission's task, as will be seen above, was to enquire into the present-day observance of the Principles of Rochdale and into the reasons for any non-observance disclosed by its enquiries. It was in order to enlist the assistance of interested Co-operative Organisations, especially on this part of the Commission's terms of reference, that the questionnaire already mentioned was framed and circulated. Their answers, summarised and tabulated by the ICA Research Section have become generally available.

The replies to the questionnaire provided only part of the basis for the Commission's findings and judgement, which also had to depend largely on the studies and experiences of its members. The whole body of material received from correspondence was contributed entirely voluntarily, and a number of organisations brought their own affiliates into consultation before submitting their replies to the Commission. The material thus represents a large sample and its value for purposes of information and illustration was very considerable.

Even more valuable was the evidence, given by the replies, of the great extent to which Co-operators all over the world, irrespective of the type of co-operative organisation to which they are attached and its economic and social environment, possess a common co-operative philosophy, from which they derive common sentiments and attitudes to basic problems greatly outweighing their inevitable diversities of objectives and method. A further result was to reveal the historical continuity which connects the pioneers of Co-operation in the early stages of the Industrial Revolution of the 19th century, even before the Rochdale Pioneers, with the pioneers of the newly-developing regions of the 20th. This made the Commission's task of answering the question, whether the Principles of Rochdale meet the needs of the Co-operative Movement today, much easier than it might have been. The task proved to be one, not so much of revision, as of clearing up confusion and removing unnecessary rigidity rooted in unbalanced or oversimplified interpretations, in other words, a process of re-burnishing which permits the underlying principles to shine with a brighter light.

### **c) Historical Background**

The Resolution of the Bournemouth Congress which called for the present investigation was adopted by an overwhelming majority. The need for a review of the Principles of Co-operation was recognised from several standpoints. Far-reaching changes had occurred in the political constitution and economic organisation of nations. Under the stress of a revolution in distributive trade many co-operative organisations encountered difficulties in maintaining their traditional practices. In the newly-developing regions the young co-operative movements had still to reach their full capacity to implement the Movement's principles and apply them in their special economic and social setting.

Compared with the Special Committee of 1930-37, the Commission has been working in greatly altered circumstances. Although the basic problems may appear to be essentially the same, namely, to maintain the Co-operative Movement's autonomy vis-à-vis political parties and governments; to correct tendencies to compromise on principles for the sake of business advantage; to clarify the essential differences between true co-operatives and other enterprises apparently imitating co-operative methods; to stress the vital necessity of keeping the Movement's democratic machinery and its educational system up to date, they were posed in different forms and with somewhat less urgency thirty years ago. The general situation was less dynamic than it is today. The main work of that Special Committee was not merely to clarify, but also to reaffirm the principles handed down from the Movement's pioneer days. The International Co-operative Alliance itself was smaller in respect of its total membership and mainly dependent for support on consumers' Co-operative Movements in Europe, a fact which was bound to influence the outlook of the Special Committee and the focus of its interest.

Even during the Second World War the Co-operative Movement played an important part in the economic life of many countries. After the fighting ended and the work of national and international reconstruction began potentialities of co-operative organisations for economic and social reorganisation became more widely recognised in all countries irrespective of their economic and social systems.

Meanwhile important changes have taken place in technology and especially management. The world appears to stand on the threshold of a new industrial revolution even more comprehensive than the old. The function of Co-operative Organisations, therefore, is more than the defence of group interests; they should be making a positive contribution to the welfare of their participants in an expanding economic system. The needs of co-operatives for large masses of capital and for trained man-power will therefore grow, though capital used by them will not dominate but only earn its fair interest. Again, in the development over a long period of large-scale business undertakings with many ramifications, an intricate form of organisation is necessary, in which too absolute interpretations of principle are not appropriate. The Movement cannot remain content with the familiar organisation of the past but must realise that new patterns are necessary for the future. This consideration is as important for the newly-developing countries as for the more advanced, for wrong applications of principle may not only hinder the Movement's progress but produce results which Co-operators do not desire. They must recognise that involvement in public policy and in other sectors of the economy than their own is inevitable, and they would be mistaken to wish it otherwise.

As the awareness of the demands of the new era into which the movement is passing has spread amongst Co-operators, they have reacted at every level—local, national and international. Structural changes involving far-reaching consolidation, concentration and integration have already been made in a number of national Co-operative Movements; more are contemplated. In the last five years, these changes have been the subject of study and exchange of ideas in the Authorities and the Auxiliary Organisations of the International Co-operative Alliance. But as they carry through their measures of reconstruction many leading Co-operators feel with greater urgency the need for guidance in matters of principle—the need to distinguish what is essential and must be maintained at all costs from what may be varied discarded or added, according to circumstances. They also feel the need of making firmer the common intellectual and moral ground on which Co-operators of all nations, of all schools of thought, of all branches of the Movement, can unite. The work of the Commission therefore takes into account the structural transformations now in progress and proposed for the future.

#### **d) The Commission's Analysis and Approach**

The Co-operative Movement is world-wide. The International Co-operative Alliance is becoming steadily more and more representative of it. Although co-operative organisations of many countries in Africa, Asia and Latin America have yet to join it, the Alliance grows in membership from year to year and its membership becomes better balanced because it is more inclusive of the diverse types of co-operative society. Consumers' and agricultural co-operatives still greatly predominate, as is inevitable, but it is significant that a growing number of unions and federations operating in the field of credit, housing, fisheries, etc. are being admitted. Sharp divisions formerly existing between co-operatives of various types can no longer be maintained. In the newly-developing regions especially, multi-purpose societies tend in several cases to replace co-operatives of specialised types which may be too small or otherwise ineffective. More important still is the fact that despite the obvious differences between the economic and social systems under which co-operatives carry on their work, the Alliance maintains its unity, as the only international organisation dedicated entirely and exclusively to the propagation and promotion of Co-operation.

The Commission, in its approach to its tasks has been profoundly influenced by its awareness of these facts. On the one hand, it felt bound to recognise that the practices of co-operative organisations must needs vary in ways too numerous to mention and with considerable differences of emphasis, not only according to their purpose and type, but also according to the environment in which they have to further their members' interests and survive. On the other hand, there must necessarily be common elements

from which they derive the resemblances which prove their membership of the co-operative family. This or that branch of the Co-operative Movement may have specific principles which are of minor importance to others, but the Commission considered that its primary task was to attempt to formulate those general principles which could and should be observed by co-operatives of all types in all social and economic systems.

It has already been remarked that the ICA Special Committee in its Report of 1937 may have been influenced to a certain degree by the composition of the Alliance at that time. This notwithstanding, the principles it enumerated were intended to apply universally to co-operatives of all kinds at all times and places. The Commission, therefore, took this Report as its starting point, as requested by its terms of reference, and based its discussion on the principles formulated therein. Since experience has shown that too brief or simple a formulation can be misleading, the Commission has deliberately chosen, at the risk of being longer and more qualified in its statements, to bring out the full implications of its thought on any given topic.

Moreover, it has endeavoured at all times to bear in mind the point of view of practical co-operators, emphasising in many cases the spirit rather than the letter of a principle. It has preferred to keep in the foreground the consideration that, in varying contexts and historical circumstances, different aspects of Co-operation receive varying degrees of emphasis and that innumerable groups of Co-operators in their own environment have been trying out how best to attain the ultimate goals of the Movement. What the Commission has considered important was not so much the verbal or semantic formulae as the substance of these objectives.

#### **e) Co-operative Principles and Ideals**

It is also in relation to these objectives that the Commission framed its working definition of Co-operative Principles as those practices which are essential, that is absolutely indispensable, to the achievement of the Co-operative Movement's purpose. This purpose has been described in various ways at different stages of the Movement's historic development. The Rochdale Pioneers, like some of the Co-operators who preceded them, declared their aim to be the establishment of communities supporting themselves by their own labour on their own land. For the most part, the Movement did not advance along this line of intensive development but developed extensively, by spreading out geographically and by breaking into one field of economic activity after another. Its success encouraged many to visualise its ultimate end and ideal as a Co-operative Commonwealth. At a later stage again, and with broader experience, many Co-operators became content to accept the less ambitious ideal of a Co-operative Sector complementary to, but exercising an influence upon, the public and private sectors of the economy.

The common element at all times has been that Co-operation at its best aims at something beyond promotion of the interests of the individual members who compose a co-operative at any time. Its object is rather to promote the progress and welfare of humanity. It is this aim that makes a co-operative society something different from an ordinary economic enterprise and justifies its being tested, not simply from the standpoint of its business efficiency, but also from the standpoint of its contribution to the moral and social values which elevate human life above the merely material and animal.

It follows from the standpoint adopted by the Commission that no distinction of degree of validity can be drawn between essential principles. The Commission has not given some principles a higher priority than others. On the contrary, if every principle denotes something essential, all possess equal authority and the essential substance of all must be equally observed to the full extent and in the manner that circumstances permit at any time and place. This qualification is inevitable in the application of theoretical

principles which have to be effective in a variety of circumstances. The Commission has done its work in the hope of arriving at formulations of essential values in Co-operation which will supply meaningful interpretations and guidance to Co-operators who have to meet the challenge and grasp the opportunities of the modern world.

## **Part II. CONSIDERATION OF CO-OPERATIVE PRINCIPLES**

### **1) Membership**

It has been usual in the past to describe the principle of co-operative membership by such words as "Open" and "Voluntary". For several reasons the Commission felt that these brief descriptions do not bring out fully the characteristic features of the relationship between a co-operative institution and its individual constituents. One fundamental consideration, which corresponds fairly closely to the facts and normal practice of co-operative societies of all types, is that those who make appropriate use of a co-operative society's services should and do become its members and, conversely, that the membership of a co-operative consists of persons with needs which its services can and do supply. Another fundamental consideration springs from the very nature of the Co-operative Movement which is at once a social movement seeking to increase the numbers of its adherents and an economic organism capable of expanding and occupying wider fields of activity. Its attitude to persons eligible for membership is, therefore, normally to welcome them when they wish to join it and, even more, to encourage and assist them to join societies appropriate to their situation and needs.

Obviously, the whole group of questions involved in membership can and must be studied from two complementary standpoints, that of the individual and that of the co-operative. The freedom of each—the individual and the co-operative—to consult its own interests and act accordingly—needs to be reconciled and blended with that of the other. On the one hand, the individual should be free to join a co-operative and share its economic and social advantages on an equal footing with other members. That implies that he must shoulder his due share of responsibility also. But he should not be coerced into joining, either directly, by legal or administrative compulsion, or indirectly, under social or, possibly, political pressure. His decision to apply for membership should normally be the result of his unfettered appreciation of co-operative values and consideration of his economic advantage, including that of his dependants. He should be free also to withdraw from a co-operative when he finds that he no longer has any need of its services or when the co-operative is unable to supply his needs.

In the nature of things, this freedom can rarely, if at all, be absolute. It can be modified or overridden by other considerations of wider application and greater essential validity. A government which is assisting a farmer to reclaim land on which he is to settle may not unreasonably impose membership of a supply or marketing co-operative, at least for a limited time, as a condition of its assistance or support, in the interests of the farmer himself. A producer or group of producers may in effect sabotage the efforts of a voluntary co-operative to improve the marketing position and incomes of producers by refusing to join it and so giving a foothold to opposing, maybe reactionary, economic interests. In order to counteract this government may intervene with legislation compelling all producers to join a co-operative or at least to market their product through it, if a prescribed majority of the producers vote in favour of such measures. Other examples may be cited, where the refusal of a small minority of individuals, after every effort has been made to persuade them to join a co-operative, say, for managing an irrigation scheme or for providing and using pesticides or adopting a new system of cropping with the prospect of much higher yields, may frustrate the whole plan of action. In such cases, refusal to join the co-operative is essentially anti-social and can be justifiably overridden

in the interests of the whole community, provided that all the circumstances of the case are taken into account and safeguards adopted against the abuse of power through the extension of compulsion in circumstances where it is unnecessary or inappropriate.

A co-operative, on the other hand, also needs freedom to modify its welcoming attitude to applicants for membership, even to the point of refusal, as well as to have in reserve powers to terminate membership if the interests of its members as a body so require.

It is a mistake to interpret the rule of "open membership" in the sense that all co-operatives are obliged to enrol all persons who may apply to join them. Open membership has never meant that. The Rochdale Pioneers at no time attempted to apply such a rule, for one very good reason that their society, witness the celebrated "Law First", was conceived as something more than a retail distributive enterprise; it was a community in embryo; its growth and success would depend greatly on internal harmony which might easily turn to discord, as earlier experiments had shown, through the admission of bad characters, irresponsible individualists or trouble-makers. Nothing is to be gained and much may well be lost by bringing in a person who unsettles the cohesion of the membership. In the same order of ideas the savings and loan bank or credit union may be justified in refusing to admit an applicant known not to be creditworthy. Another kind of limiting condition, imposed for the sake of orderly and economical working or of avoidance of unhealthy competition, is the exclusion by one society of would-be members from the territory served by another. Several instances of similar obvious limitations on the unfettered admission of members may be cited by examples from all forms of co-operative societies.

It may also be stated as a general proposition that persons or associations who desire to join, or to form, a co-operative for dealing in produce or labour other than their own or of their own members, cannot be said to act in pursuance of the basic co-operative principle—that of association among persons, considered as human beings with equal status, for mutual service.

Taking account of the preceding limitations, it would seem that "open membership" in a very broad sense can and should be the universal practice of consumers' co-operatives, if only because every man, woman and child must consume to sustain life. In the case of other organisations, however, there are further obvious limitations on the admission of members. For instance, the very specialisation of producers' co-operatives, whether promoted by artisans or wage-earners engaged in the same trade or industry or by farmers or cultivators, automatically limits their membership to persons interested in a given product or range of products and excludes others who have no such interest. For example, cultivators not interested in citrus-growing for the market have no place in a citrus-marketing society, but a citrus-marketing society would not be acting in a fully co-operative spirit, if it closed its membership against applicants for membership who were citrus-growers. In general terms, the essential consideration is that, if an individual has interests within some specific field of service for which a co-operative is formed he should be regarded as eligible for membership and, if he applies, admitted, unless he is personally unacceptable on some obviously justifiable grounds similar to those indicated above.

In the case of the workers' productive societies, the members of which find their daily employment in the society, limitation may justifiably be stricter. Not every worker who may seek employment or membership in such a society can or ought to be admitted, because the society's capacity to employ its membership and add to the number of workers who may be applicants for membership is itself limited. Again, a limitation adopted by some of these societies on prudential grounds is the fixing of a probationary period for

candidates for membership, in order that those who are already members can make sure that the new entrants will possess the necessary degree of technical skill and have sufficient regard for the interests of the society. The fact that these limitations may be capable of abuse by some co-operative associations does not make them unreasonable in themselves, though continued employment of workers to whom membership is being denied would offend against open membership.

Another important class of co-operative which may be obliged to limit their membership are the housing societies which are engaged in supplying a commodity which is naturally limited in supply and can therefore only cater for a limited number of persons. They cannot guarantee that all who may want to join them will obtain within a reasonable time the house or flat they may desire and the only fair course may therefore be to close their membership register until vacancies actually occur. In these cases the essential question has to be posed in the converse way; has the society tenants who have been denied the right to become members? If the answer is no, the society is not acting in an unco-operative spirit.

The preceding examples, without being exhaustive, may serve to illustrate the natural limitations to which the admission of members to co-operative societies may be subject. These notwithstanding, co-operation can maintain its proper character as a voluntary movement offering to share its benefits with all who need them, only if co-operative societies of every type unreservedly accept their obligation to admit to membership anyone who, in return for these benefits will undertake in good faith to fulfil the duties which membership implies. Regulations, policies and practices which are exclusive in their effects, reserving to a select few what should be open to all, are unacceptable restrictions.

One kind of restriction may be called economic since it consists in the erection of barriers which some people eligible for membership may be unable, for economic or financial reasons to surmount. If a society requires new members to pay entrance fees or subscribe a minimum shareholding which are beyond the means of any appreciable number of possible applicants, so that they are deterred from applying for membership, it is acting restrictively. Stating the essential consideration positively, it would be correct to conclude that the entrance fee (if any) and the value of the minimum shareholding should be fixed at amounts which the poorest prospective member could pay without hardship. The general practice of co-operative societies for generations past has been in the direction of easing the conditions of admission by allowing shares to be paid up in instalments or out of accumulated savings on purchases or sales (patronage refunds) and by abolishing entrance fees, but there are limits set to these facilities by the capital requirements of the societies. Within the last 20 years or so these limits have tended to be drawn tighter, partly by reason of monetary inflation, partly by reason of the greatly increased capital requirements in order to finance business expansion and structural re-organisation to meet competition of unprecedented severity. Certain national co-operative movements have thus been obliged to raise the nominal value of the share or the number of shares to be held as a minimum, a measure which would appear to be entirely justified, provided that the new figure does not have restrictive effects on the admission of new members. Under conditions of high and stable employment and rising wages the restriction may not be appreciable, but any proposals for raising minima may well be examined from this angle before they are adopted.

A second kind of restriction may be indicated by the term "ideological" for lack of something more comprehensive which would include the most important matters which tend to divide people in society, irrespective of their economic situation and needs. The chief of these areas of conflict have been in the past and still tend to be in the present, politics and religion. Distinct from but partly overlapping these are race, colour, caste,

nationality, culture, language any of which can provoke intense and sometimes chronic hostility. From the Co-operative Movement's earliest days wise co-operative leadership realised that if a co-operative society was to maximise the economic power of its membership, actual or potential, it would be a mistake to exclude any person of goodwill on account of political opinions or activities, religious creed or lack of creed, race, colour or any other consideration not relevant to the economic and social purpose of the co-operative. And with few exceptions, that rule is followed today even by co-operative organisations which may have always had close affiliations with political parties or religious institutions. The important consideration is that the society shall demand from its members no other allegiance or loyalty than what is owed to itself and its own democratic decisions and shall admit all who are prepared in good faith to give their allegiance.

Before passing from the question of admission to other aspects of the relations of co-operative societies with their members, the Commission would point out that the consequence of restrictive policies in general is not simply to stunt a society's economic development, but to risk the deterioration of its character as a co-operative. The normal co-operative practice, as was indicated in a previous paragraph of this section, is that the members and the users of the services of any given co-operative society are one and the same body of people. Nevertheless in actual business life it is extremely unlikely that many societies, especially those trading in highly developed industrial or agricultural areas, can avoid dealing with non-members. A non-member is a potential member. If he uses a society's services once and is satisfied, he may well do so again. Many far-sighted societies accumulate his patronage refunds for him and when they amount to a minimum share, offer him the opportunity of membership and so of regularising his relations with it. On the other hand, in a society which pursues a policy of restriction, the existing membership tends to form an exclusive and narrowing circle, whose democracy becomes sooner or later suspect and whose business practice tends more and more to resemble that of profit-seeking enterprise. If it be accepted that the co-operative system is one in which the motive of mutual service rather than profit is dominant, then the rule of "open" membership, with all the qualifications and modifications in its application already mentioned, provides indispensable safeguards against degeneration into business of the ordinary type. Thanks to open membership the shares of co-operative societies remain constantly at the nominal value fixed in the society's rules and can be acquired by any new member at that value. Trafficking and speculation in co-operative shares are therefore rendered profitless and do not arise.

Naturally the salutary effects of open membership are reduced if the distinction between members and non-members becomes blurred. Because they undertake the risks, it is members and no one else who are fairly entitled to share in the savings which a co-operative makes, but only in so far as these savings result from their own transactions with it. The society must itself be scrupulous in dealing with any revenue which accrues from dealings with non-members using its regular services; if it is not reserved for individual non-members as an inducement to them to apply for membership, then it should be devoted to some purpose of common benefit, preferably for the wider community beyond the society's membership. In no case should it be added to the savings distributed to members, otherwise they would participate in profits in a manner that Co-operation expressly abjures. The distinction between members and non-members becomes increasingly difficult to preserve with the necessary clarity under contemporary trading conditions. The stores of the great urban consumers' societies of the highly developed countries stand open to the general public and in some countries the national Co-operative movement claims sale to the public as a right, or, at least, a condition necessary to the movement's growth and its effectiveness as a price-regulator. There is a disposition among a public pampered by advertising to take the benefits offered by the consumer co-operatives but to decline membership since that involves responsibility.



Open membership as a means of keeping the door open to the younger generation and of admitting new elements which may revive democracy in a co-operative where it is becoming effete may nowadays be less effective than formerly, but it still has a certain value, especially where it is supported by the right educational policy—a subject to be discussed under another heading.

If an individual should be free to join a co-operative society he should be in principle free to withdraw from it. But in doing so he does not or cannot immediately shed the responsibilities he undertook when he became a member. He has an obligation to consider the interests of the society and the management of the society has the duty of safeguarding those interests, especially as cessation of membership normally entails a claim to the withdrawal of share capital. In this way the resignation of a single member with a large capital holding or the simultaneous withdrawal of a number of members may seriously inconvenience a society or even jeopardise its financial position. Societies' rules therefore rightly include provisions governing the termination of membership, the withdrawal or transfer of share capital and sometimes the period of a members' liability after he has left it. No member should be given any excuse for ignorance of the conditions he must fulfil if he leaves. In an earlier stage of the movement's development considerations of financial stability and safety induced Co-operators to prescribe in their societies' rules that members should hold a minimum of transferable as well as withdrawable shares, but in the older and well-established co-operative Movements today the tendency is to facilitate the withdrawal of capital because this facility is itself an inducement to members to take out shares above the minimum holding required by rule. The legislation of different countries regulates this situation in different ways, but, in general, while a member leaving a society cannot usually enforce the repayment of his share capital as a right, the management of a society, where society's liquidity or financial position are not impaired, would act fully in a co-operative spirit by avoiding the infliction of any hardship through standing strictly on the letter of the rules and in an emergency by doing everything possible to afford relief.

Finally, a co-operative society, in the interests of the whole body of its members must have the right and must take power in its rules to terminate an individual's membership, given just cause. This is also a case in which the rules should lay down the conditions under which resort to expulsion is possible and the procedure to be followed before expulsion is finally decided, so that all members can be aware of them. It is not grounded in any specifically co-operative principle but in a natural principle, common to all incorporated associations, which permits them to eject elements acting against their interest or contrary to their objects. If the decision to expel is taken in a democratic manner by the elected authorities of the co-operative, that is to say, either the board of directors or the council of supervision or both, the member affected should have the right of appeal to his fellow-members, either in the general meeting or in a representative assembly, invested with the functions of the general meeting, before expulsion takes effect.

Membership of Co-operative Organisations above the primary may consist of co-operatives or of co-operatives and individuals. With very few exceptions the rules and practice regulating the admission to and withdrawal from these organisations are similar to those of primary societies already discussed and raise no important questions of principle. Whereas however membership of primary societies may occasionally include, without impairing their co-operative character, a small minority of corporate bodies not forming part of the Co-operative Movement, the case of many organisations established for special services needs close examination because the conditions are not necessarily similar. A real possibility exists that co-operative organisations would be in a minority. In this case they might not be able to assure the observance of co-operative principles by, and the retention of true co-operative characteristics of, such organisations. Where the co-operative membership is not in a position to ensure that co-operative principles will

be maintained the organisation is in danger of losing its eligibility for recognition as a co-operative.

The important consideration is not necessarily the legal constitution of the organisation but whether in fact the co-operative principles are observed. The same consideration governs the participation of co-operative societies in non-co-operative associations. Co-operative societies ought not to participate and ought to withdraw from an association if it involves them in practices for which there is no justification in terms of co-operative principle.

In conclusion, the Commission, after reviewing the practice of many types of co-operative societies in varying social environments today, finds that voluntary membership without artificial restriction or discrimination, as this has been interpreted in the preceding discussion, should be maintained as a fundamental characteristic of the co-operative system of economic organisation because it is essential to the achievement of its immediate and ultimate aims. The individual who seeks to participate, along with his neighbours or fellow-workers, in a co-operative, must do so of his own free-will, not from external pressure or constraint, nor must the co-operative place any artificial or discriminatory obstacle in the way of his entry or impose, as a condition of admission, his adhesion to any organisation or doctrine not relevant to the society's economic and social purpose. The individual should be under no compulsion to remain a member any longer than his own interests dictate, nor should the society be obliged to retain him as a member if he acts in a manner detrimental to its interests and hostile to its aims. The conditions under which individual and society can terminate their association should be clearly laid down in advance and well known to both parties.

## **2) Democratic Administration**

The primary and dominant purpose of a co-operative society is to promote the interest of its membership. What the members' interests are in any given situation only they can finally determine. A co-operative therefore will not in the long run work well and prosper without agreed and efficient methods of consulting the members as a body and enabling them to express their wishes. Moreover, since it is the members who bring a co-operative into existence and whose constant adhesion and support keep it alive, those who administer its affairs and, in particular, conduct its day to day business must be chosen directly or indirectly by the members and enjoy their confidence. It follows further that the administrators and managers are accountable to the members for their stewardship, report regularly in a business-like manner on their activities and submit the results to the members' judgement. If the members are not satisfied, they have the authority and the power to criticise, to object, and in extreme cases, to dismiss and replace their officers and officials.

This is what is meant by saying that co-operatives are administered in a democratic manner. It is significant that amongst all the documentation placed before the Commission there was not one serious challenge to the claim of democracy to be recognised as an essential element in Co-operation. What divergences of opinion or disagreements were revealed referred only to the different rules, conventions and practices necessary to achieve effective democracy in varying circumstances

It is not therefore that the principle is in any doubt, but that its implementation becomes more and more complicated with the growing size of Co-operative institutions and the scope of their economic commitments as well as with the rapid and far-reaching changes now going on in the Movement's economic and social environment. The evolution of industry and of co-operative enterprises in particular makes continual

modification inevitable. Refinements in the forms and machinery of administration are not therefore to be regarded as a departure from democratic principle.

Development of the co-operative's administrative organs, if they are to embody the democratic principle, must remain anchored to certain fundamental rules and assumptions which the Co-operative Movement has accepted from its very beginnings. The co-operative society, unlike a joint-stock company, being primarily an association of human beings, the status of all its members should be equal and all should have equal opportunities of participating in decisions and expressing views on policy. There is no way of ensuring this save by giving each member one vote and one only. Further, since the Co-operative Movement exists in order to place the common people in effective control of the mechanism of modern economic life, it must give the individual (only too often reduced to the role of a cog in that mechanism) a chance to express himself, a voice in the affairs and destinies of his co-operative and scope to exercise his judgement. It is a corollary of the principle of voluntary membership that the individual member should feel that he has a real responsibility for his society's good administration and achievements. Accordingly, there should be no exceptions to the rule of one member, one vote in primary co-operative societies, that is, in associations of individual persons.

The right of every member to one vote and one only, enshrined in the rule-books of co-operative societies, is not in itself a guarantee of effective democratic administration, especially in the vast and widely-extended primary co-operatives, notably of the Consumers' Co-operative Movement, of today. Much depends on the circumstances in which members are called on to vote and in which their votes are given. In societies growing rapidly, whether by simple expansion or by amalgamation, the general meeting of members becomes less reliable and authoritative as a supreme democratic organ. It is therefore often replaced by a representative body legally invested with the powers of the general meeting and exercising its functions. The individual members no longer directly elect the administrative board but only the representatives who elect the board. Instead of one general meeting, the members are convened to a number of branch or district meetings, the agenda of which can cover, of course, the whole field of the society's operations and not simply branch or district affairs. Moreover, personal knowledge of officers and candidates diminishes, giving place to impersonal relations between administration and membership, at the same time as the increasing scope and complexity of societies' operations outrun the ability, not merely of the ordinary members, but of their elected representatives also, to keep track of them.

The tendency to evolve towards the creation of ever larger and more closely integrated operational units is not only characteristic of the economic world but also inherent in the co-operative form of association. The Co-operative Movement therefore must attempt to match it by a corresponding development of its democratic organs and a judicious balancing of centralisation by decentralisation. The more the affairs of primary societies have to be entrusted to trained and experienced professionals and the greater the extent to which vital decisions have to be taken by an official elite at the centre of their administrative systems, the greater the importance grows of consolidating the societies' local foundations and strengthening their influence on the minds of their members. To counterbalance the officials and their natural leanings towards bureaucracy, the societies need to have members' representatives capable of efficiently discharging their responsibilities as guardians of the members' interests and spokesmen for their wishes. To make this possible the general body of members must themselves be well informed about the affairs of the society. It is not within the Commission's terms of reference to prescribe methods of constitution-building or systems of organisation, all of which are bound to require more or less adjustment to circumstances which vary

from continent to continent, but it would fail in its duty if it did not call attention to the seriousness and urgency of the main problems involved in the preservation of the Co-operative Movement's essential democracy under contemporary economic and social conditions. In a period when precedent is becoming an ever less reliable guide, there is need for constant testing and experiment. In this connection may be cited the efforts being made in several countries to improve the quality and qualifications of elected officers and the attempts to train members of management committees and to devolve upon the members in their localities matters, even the appointment and dismissal of managers, in which the local interest is paramount.

It is necessary at this stage to consider democracy in relation to another important aspect of the evolution towards larger operational units, and that is the enhanced role already played—and promising to be greater in the future—by unions and federations of co-operatives, as well as other secondary, even tertiary, organisations. The secondary organisations which are created by the co-operation of co-operative societies are themselves undoubtedly co-operative organisations, with the same obligation as the primary societies of conforming to the essential co-operative rules. The members of secondary organisations have equal rights. This equality gives them the proper basis for democratic management. It is therefore quite consistent to apply the rule of one member, one vote to secondary organisations, as well as primary societies. That, in fact, is what is done in a number of secondary organisations, including some of national dimensions. It would appear to work satisfactorily in organisations where there is no great disparity in size between their affiliated societies. Another method, which unquestionably pays proper respect to the human factor, is to base voting power upon the individual membership of societies. This is characteristic of the consumers' co-operative movements in which the national and regional unions may comprise village societies with a few hundred, as well as urban or district societies with scores or even hundreds of thousands of members. A variant of this system is found where voting power may be based on capital contributions which are themselves based on membership. On the other hand a tendency is observable in some producers' co-operative movements to take account of the different degrees of interest displayed by the affiliated societies in their common organisation, as indicated for example, by their volume of purchases from it or of produce marketed through it. There are, of course, a number of consumers' wholesale federations whose member societies vote in elections and appoint representatives to general assemblies and congresses in proportion to their purchases. It does not appear, however, that these departures from the strict rule of equality of persons have yet led anywhere to a distribution of voting power radically different from that which would have been made on a membership basis, and, from a practical angle and in the light of experience, they may represent a necessary or desirable concession for the sake of unity, equity or efficiency or any combination of these. This case may be illustrated with special force by marketing or processing societies, operating without a binding rule that obliges their affiliates to deliver all their produce to them, which feel obliged to draw a distinction in favour of those which make constant, compared with those which only make intermittent, use of their services.

With hardly any exception, however, whatever the basis of differential voting adopted, the largest constituents are not permitted to possess an unlimited number of votes. Normally the rules lay down a graduated scale and impose a ceiling which may not be exceeded, as in the rules of the International Co-operative Alliance. Such a method reduces the likelihood of undemocratic decisions resulting from the power of a small coalition of large organisations to outvote a much greater number of small ones. It is quite possible, however, that, as a result of the amalgamation of local primary societies into regional units, many of the present glaring inequalities of size among the affiliates of national unions will disappear.

The present discussion of co-operative management has proceeded so far on the assumption that, given the proper democratic structure and a modicum of education, the members of co-operative organisations can, as a rule, manage their business in their own interests in a competent manner. This assumption agrees fairly well with the facts, otherwise the Co-operative Movements now well-established in the advanced industrial countries would not be able to boast of a century's or half-century's successful development. Nevertheless there are considerable areas of the globe where any such assumption is not justified and may be very much at variance with the facts. This is far from saying that it will not be possible some day to make the assumption and know it to be true. Meanwhile, the fact must be faced that, in a number of the newly-developing countries, people who are just beginning to learn co-operation are not always sufficiently well equipped by themselves to manage their societies successfully without advice and guidance from some friendly outside source. If they do not receive this help, co-operative development may not take place. The possible sources are, generally speaking, two, namely: government, or institutions and individuals in sympathy with co-operative methods and ideals.

It can scarcely be contested that without the support of generous amounts of government finance, the development of co-operation in the newly-liberated countries will be painfully slow and uncertain. But if governments provide or guarantee large loans or take out large holdings of share capital they will insist on checking the use which is made of public money and on satisfying themselves that proper technical advice is being taken and due financial prudence exercised. Government may therefore ask that its representatives shall sit on boards of management for a time, not with power of veto, but to make sure that the aid provided is being utilised in the way in which it was originally intended. The important consideration is that the government representative shall not continue to sit a day longer than is necessary. The more successful a society is, the more likely are the members to conceive the ambition of acquiring independence of government supervision and work to achieve it.

There is no doubt in the minds of the Commission that democracy in the management of co-operative organisations necessarily implies autonomy in the sense of independence of external control, apart from the obvious obligation of co-operative societies to bow to the same general laws as all other business undertakings and accept the discipline imposed by the State or the planning authorities. In a fully developed co-operative unit the management must rest in the hands of the members and all decisions be taken by the co-operators themselves, with no external interference. Autonomy is therefore a corollary of democracy. At the same time, it must be recognised that, in co-operatives which are themselves at the beginning of their development, their democratic organs also are very probably underdeveloped and, likewise, the capacity of their members for carrying out democratic procedures efficiently and for submitting readily to democratic discipline. The important thing is that they shall be continually advancing towards full and effective democracy, as they very well can if they are willing to learn from their experience as they gain it. If they are prepared to reflect on their experience and discuss their good and bad decisions with their fellow-members, they can make the knowledge of their rights and responsibilities the basis of a sound democratic technique. But there is no finality, as the co-operators of the older Co-operative Movements have been forced to realise in the last two decades. In a rapidly changing world democracy and democrats must learn to be dynamic.

### **3) Interest on Capital**

The Co-operative economic system has broken with the practice of ordinary profit-seeking enterprise, not only through its rules of association and democratic administra-

tion, already discussed, but also through the rules which determine the allocation and division of the savings and other financial benefits successful co-operatives yield to their members. This has its origin notably in the resentment with which many working people regarded the distribution of property and income in the 19th century society, because in their eyes it was both unequal and unjust. While the immediate goal of co-operative effort among them might be to cheapen the necessities of life for consumers or to provide a decent living for producers, the ultimate aim was to establish a new social order characterised by what they called "Equity" in the distribution of wealth and income. The new industrial techniques, then as today, had an insatiable appetite for capital. People who possessed or commanded money for investment wielded a bargaining power which enabled them to obtain, at the expense of the other factors of production, high dividends and an accretion of capital values representing something much more than interest—the lion's share of the profits of industry as well.

The Rochdale Pioneers realised that, for their immediate plan of opening a store and likewise for their ultimate plan of establishing a community, capital was indispensable. They recognised the added productivity which the use of capital gave to labour as a reason for remunerating those who supplied it. Their idea, however, was labour working with capital, not labour working for capital or its possessor. They therefore rejected the claim of the owners to any part of whatever surplus remained after the other factors of production had been remunerated at market rates, although admitting their claim to interest at fair rates. Here it is desired to emphasise that co-operative rules regarding interest and the division and use of surplus are the twofold result of a firm resolve to establish and extend a more equitable division of the product of economic organisation than is commonly found in the profit-dominated business world.

The men of Rochdale, poor though some of them were, decided to provide the initial capital for their venture from their own personal savings. As the venture was successful they were able to add co-operative savings, notably in the forms of reserves and depreciation of their society's real property, to their individual contributions of capital. Self-financing by these two methods became customary and widespread among the old Co-operative Movements, whether of producers or consumers, because of its obvious advantages of economy and security. Provided that capital is forthcoming in adequate amounts when required, self-financing is an added guarantee, in a competitive economy, of a co-operative society's independence and freedom to solve its problems of growth and development through the untrammelled application of co-operative principles. Moreover, individual savings in the form of share capital are a pledge of the members' support. The fact that their own money is risked gives powerful inducements to exercise prudence and foresight when playing their part in the society's administration. Naturally, self-financing is not so easy in the younger organisations of the newly-developing countries but it can be recognised as a desirable objective to work for and attain in time. Meanwhile the members ought to be obliged, as a matter of principle, to contribute at all times as much capital as they reasonably can, however little. In the old-established Co-operative Movements, with their powerful central institutions for trade, banking and insurance, the rule of self-finance must receive, under contemporary conditions, a broader formulation. Self-financing tends to become ever harder and may end by becoming impossible for primary societies. It has to be the national movement as a whole that finances itself through the lending to primary societies of funds accumulated in the central organisations by deliberate policy and placed under their management with the common consent of their affiliated societies. The time may even come when, under the stress of competition and the urgent need to extend their structures and renew their equipment, the national movements will be unable to finance their operations without attracting capital from outside. Cases may even occur when the necessity of competing successfully for the favour of people with savings to invest against savings banks and the

securities dealt in on the stock exchanges may tend to restrict the freedom of co-operative organisations to fix their interest rates according to their own principles. All the more reason, therefore, why Co-operators should clearly understand what their own principles require in this connection.

The capital structures of the different national Co-operative Movements are not uniform. Three main categories may be distinguished in most of them, but in proportions which may vary widely from country to country and from one branch of the Movement to another. These are: the members' share capital; capital owned by the societies in the form of reserves and special funds on which the individual members have no claim; loan capital, which includes all external borrowing, as may be from banks or governments or other co-operative institutions, as well as all kinds of loans made or savings deposited by members over and above their share-holdings. Of these three categories, no interest is payable by the society on the second, although it may calculate interest for the purposes of its internal accounting. On the third, the interest rates are not likely to exceed the rates prevailing in the external money and capital markets or fixed by authority in a centrally-planned economy for equivalent kinds of investment. Clearly then, it is the first category, the share capital—subscription of which is an attribute of membership and which is closely associated with risk-bearing—which is subject to fixed and limited rates of interest.

Admittedly, Co-operators are by no means unanimous on the question whether any interest should be paid on share capital at all and the practice of different movements varies accordingly. The question, however, is not one of principle. There is no co-operative principle which obliges interest to be paid. The principle is that, if interest is paid on share capital, the rate should be limited and fixed, on the ground that the supplier of capital is not equitably entitled to share in savings, surplus or profit, whatever the term employed to denote what remains of the value of the society's output of goods and services, after its costs, including the remuneration of labour, land and capital, have been met. There appear to be four different situations in which the policy of any co-operative regarding interest on share capital can be tested in the light of this principle. The first is that already mentioned, when no interest at all is paid on share capital. This practice does not conflict with any essential principle of co-operation. A second situation is that in which interest is paid, but at a figure which is deliberately held below the rate which would be regarded as fair at any given time on the ordinary market. A limited rate of interest in this sense is not in conflict with co-operative principles. The third situation is the one in which a limit is applied but only for definite periods or raised and lowered in relation to the bank rate of discount or some other rate which is generally regarded as being kept at a fair level in the conditions prevailing on the ordinary market. This limit is equivalent to a fair return on capital regarded as capital and not specifically as share capital. This fair return is not indicated by the frequent and rather wide fluctuations of the short-term money market but by the long-term movements of interest rates over years or generations. If co-operative societies adjust the upward limits of their interest rates to the level set by these long-term tendencies once again there would not be any contravention of the true principle.

There is, finally, the fourth situation, already alluded to, when co-operative organisations may feel obliged to include in the interest paid on shares an additional amount which resembles a premium to the lender, intended to induce him to invest his money in the co-operative rather than elsewhere. Such a practice is from a co-operative point of view at least dubious. Nevertheless, it has to be regarded from a practical standpoint and the greatly increased capital needs of those branches of the Movement which have to make headway against capitalist enterprise on the largest scale equipped with every modern technical device. If then Co-operative Organisations have to convince their members that they will not lose appreciably by placing their capital in the co-operative,

in preference to a profit-making enterprise from which they can ultimately expect not only dividends but increased capital values in time, it may be necessary to offer higher interest rates in order to ensure the continuance of the practice of self-financing, with all its advantages. The question is whether the additional interest is a tolerable or an excessive price to pay for adherence to a sound traditional method. If the addition is no more than marginal, in these circumstances the departure from principle may have to be examined as a special case, but if the addition is considerable and is not to be explained away by a situation such as has been described above, it will be difficult, perhaps impossible to justify.

The Commission is of the opinion that the limitation of interest should not apply only to the minimum share-holding which most societies' rules oblige members to hold in order to enjoy their full rights, but also to any share capital they subscribe above this minimum.

In concluding this section of the report the Commission is of the opinion that a word may be appropriately said on methods and machinery adopted for fixing rates of interest on share capital. In the Movement's early years, in an age of greater apparent stability than the present, when the quality of stability was essential in any co-operative society which intended to endure, rates of interest were often stated in societies' rules and remained constant for relatively long periods. They were thus subject to all the rather combrous and roundabout procedures required for the amendment of rules, such as a two-thirds majority vote in a special general meeting convened after so many weeks' notice. The members placed their savings in their society's care for the sake of security, much more than for any additional income in the form of interest, and left them with it to accumulate through the automatic transfer to share account of dividends (patronage refunds). Contemporary conditions in the countries of advanced economic development demand some more elastic system of interest limitation. If the Movement is to be more than a mere camp-follower of the more progressive private sector and blaze new trails and lead the entire economic system, the whole question of capital availability has to be studied in a much more mobile and dynamic manner than was possible in earlier days. This does not imply any departure from principles hitherto accepted, only their application in a more flexible manner. If co-operatives adhere to the principle that nothing more than a legitimate rate of interest will be paid, one is no more and no less co-operative than another, whether it fixes its rate for long periods by rule or for short periods by reference to some standard rate prevailing in the market.

#### **4) Disposal of Surplus (Savings)**

The group of problems to be discussed under the above heading is complementary to that considered in the preceding section. After the question of fair remuneration of capital in relation to the other factors of production has been dealt with, there remain the problems involved in the equitable sharing among the members of a co-operative of any surplus or saving resulting its activities. There are two main questions for solution: first, to find the proper balance between the interests of the individual members and those of the society as a whole; second, to do justice as between one individual member and another. The discussion of these questions has been much confused in the past through misconceptions springing from analogies mistakenly drawn between the financial benefits derived by members from their co-operative society and the profits distributed by joint-stock companies to the holders of their ordinary (equity) shares and, as a consequence, through the use of ambiguous terms. The Commission therefore feels obliged, at the risk of traversing what is to many very familiar ground, to clear the air by restating certain fundamentals.



The economic benefits conferred by co-operative societies on their members are of various kinds and become available according to circumstances in a variety of ways. They may take the form of money, goods or services. They may be immediate, short-term or long-term. Some may be enjoyed collectively; others can only be enjoyed individually. In deciding in what forms and in what proportions or amounts the surplus or savings shall be allocated or divided, the members as a body have, and ought to have, absolute discretion.

In reaching their decisions, however, there are two sets of considerations which, if they hope to prosper, they dare not neglect. On the one hand, there are considerations of business prudence; on the other considerations of equity. If they neglect the former, they will run into economic and financial difficulties. If they neglect the latter, they will provoke resentment and disunity in their society. In some countries a conspicuous economic benefit of a prosperous co-operative is a money payment or patronage refund it makes to its members periodically after its accounts have been balanced, audited and approved, along with the proposed allocations and divisions, by its general meeting. These payments are frequently called "dividends", and this is the first occasion of confusion, because the same term is used in company practice to denote payments to shareholders from profits. From this confusion arises another, namely, that the payment of a money dividend is an object, even the principal object, of a co-operative society, just as it is of a company. Despite all that has been done in the past to educate the public and the mass of co-operative members, to say nothing of politicians and tax-collectors, to understand that the sums distributed by co-operators are yielded by a different type of economic organisation and result from a different series of transactions from company profits, the errors persist, first, that the principle of "dividend on transactions" implies an obligation on a co-operative to make a periodical distribution of its earnings, and second, that the rate of dividend is the most reliable index of its efficiency.

The fallacy is exploded by three well-known facts. The first is that co-operative societies can—and many agricultural supply societies, for example, do—adopt a policy of allowing their members to purchase at prices so near to cost that no margin remains large enough to be worth distributing, especially if the second and third facts play a role of any importance. The second fact is that business prudence sometimes counsels a society to place to reserve or capitalise the whole or greater part of its net earnings, notably when its own position is in any degree difficult or the general economic outlook is uncertain or if it is contemplating a new departure requiring all its financial resources. The capitalisation of surpluses, especially by unions and federations, has always been a powerful factor in co-operative commercial and industrial development. The third fact is that societies often devote a portion of their net surplus or savings to the provision of services for the common enjoyment of their members, as being more useful to them than the equivalent in cash, because the members could not provide them economically as individuals. The overriding consideration throughout is that whatever is to be done with a society's net surplus or savings is determined by democratic decision by the members according to their judgement of what is just and expedient. Moreover, the amount which is subject to their decision is not profit in the ordinary commercial sense.

Here the Commission would recall that the questions whether to divide or not, and, if there is division, what shall be the method, have been constantly present to the minds of Co-operators throughout the Movement's history. Theoretically, in the pre-Rochdale Co-operative Movement of Great Britain, the net savings or surplus of co-operative societies were to be kept indivisible and added to the societies' capital in order to assist their development into self-supporting communities. Practically, division of net surplus amongst the members was widespread without any uniformity of method. Equal division, division according to capital contributions, division according to purchases were all practised. The Rochdale Pioneers, when faced by the same question, decided,

in the light of their experiences and after much reflection and discussion, that there should be division, for the cogent reason that in order to gain the support of any considerable number of members, their society must offer them some immediate or short-term advantages. The British wage-earners' economic position in the "hungry" 1840's needed relief there and then. It would not permit them to make sacrifices for a distant community ideal. The Pioneers' decisions to divide and to divide in proportion to purchases were really dependent on a previous decision as to price policy. They chose to retail goods at current market prices, as this would administratively be easier and simpler than sale at cost prices—costs and expenses were difficult or impossible to forecast accurately—and return to the members periodically in proportion to their purchases what they had paid over the counter in excess of the cost of procuring the goods they bought. The experience of over a century proved the practical wisdom of their decision, but it is significant that those who adopted Rochdale methods in several other countries tended to modify them, once again in the direction of conferring an immediate benefit on the member, by adopting an "active" price policy of slightly underselling the market, with the further consequence of lower rates of dividend on purchases.

Before passing to the discussion of these questions it should be noted that a number of customs and conventions have grown up around the dividend system and these have more or less profoundly modified its practical application. One is a tendency to stabilise or even standardise the rate of dividend. On the one hand, the members in time come to reckon with a constant rate for the purpose of their personal or household economy, earmarking the dividend to meet some of their regular outgoings. On the other hand, the managers tend to budget for a constant rate and include it in their calculation of prices, thus in effect turning the system upside down. In either case the correspondence between the dividend rate and the trading results of a given balancing period may be broken, and the danger arises that a society, in order to maintain the regular rate, will pay a dividend in excess of its earnings and draw on reserves or development funds in order to do so. This temptation increases with the pressure of competition, but it is one which should at all times be strenuously resisted in the interests of sound management.

Co-operative societies have also to face the reactions of their competitors to the power of dividend to attract custom and buttress the loyalty of members to the co-operative store, whether they are purchasing consumption or production goods. This reaction takes the obvious forms of discounts, rebates, premiums, etc. which, if they represent cash or its equivalent, may appear more advantageous than a dividend for which the member must wait until the year's or half-year's end. Not seldom co-operatives have felt obliged to make some concession to offset these inducements, as, for example, by giving their members the choice of receiving discount at the time of purchasing or waiting for the dividend ultimately declared. No breach of principle is apparent here, if the rate of discount does not exceed the rate of dividend or patronage refund.

The Commission took note of the tendency for the role and importance of dividend in the economy of Co-operation to change with altered economic and social conditions, particularly in the countries of advanced industrial development. In these countries today, where competition is fierce, dividend rates display a downward trend, the combined result of diminishing trade margins in the branches of business in which co-operatives traditionally engage and of rising costs due to labour's increasing demands and to inflationary factors. The importance of dividend also declines in the estimation of the membership as increased earnings, full employment and state welfare services bring about greater security and higher standards of comfort, and with that, the power of dividend to induce constant and "loyal" purchasing over the whole range of commodities societies supply. Recent researches tend to confirm that the rate of dividend now exercises less influence on purchases of consumer goods, compared with their quality and presentation. The role of dividend in the self-financing of co-operatives is also liable to change.

Members leave their dividends to accumulate in their capital accounts with their societies to a lesser extent than formerly, unless the societies adopt special measures to promote self-financing in new ways, designed to bring in additional capital for special new ventures or to enable the society to retain part of members' dividends as capital for long periods, e.g. as in the family savings account system of the Swedish Consumers' Co-operative. Parallel changes are to be seen in the social, educational and recreational services traditionally provided by co-operatives out of their net earnings, as they are replaced by more comprehensive and effective state welfare and educational systems. This does not necessarily mean that the advantages of collective over individual expenditure are ceasing to be significant in co-operative economy but that the purposes for which allocations are made must change with the times, as new habits and modes of living open up fresh possibilities, notably in the cultural field. Nevertheless, all these differences imply no more than changes in the pattern of disposal of surplus; the elements remain unchanged. They still are: provision for the society's stability and development; provision for collective services; dividend to members according to transactions. In those parts of the globe where free market economies prevail and commodities are bought and sold by co-operatives to and for their members at market prices or prices varying according to market conditions, savings will be made and accounts will show surpluses, if societies are successful. Under these conditions there seems no need to depart from the principle, already observed for over a century as the most equitable and convenient, of distribution on the basis of transactions.

## **5) Politics and Religion**

The topics discussed in this section may appear at first sight to lie to a large extent on the fringe of the Co-operative Movement's proper concerns. The Movement's action has hitherto been, and, many believe, must always be, centred in the economic and educational spheres. For the better performance of these tasks, prudent co-operative leadership has constantly tried, as far as possible, to concentrate the attention of the Movement on them and avoid the risks of disunity and dissipation of energy incurred when issues of no obvious relevance, on which people are bound sooner or later to disagree, are imported into the consideration of Co-operative affairs. The strong feeling that this treacherous ground must be avoided at all costs found expression in the formula "Political and Religious Neutrality" employed in the Report adopted by the ICA Congress of 1937. The Report not only gives Neutrality the authority of a principle, but also imparts a wider significance to the term by linking it with race and nationality, as well as politics and religion. In the present Report, even where race and nationality are not specifically mentioned, they may be assumed to be covered by politics, for both are capable of erupting into political conflict in more than one region of the globe.

It is the term "Neutrality" itself which is increasingly called in question by Co-operators more or less everywhere. It was never a good term, because it carried overtones of passivity and indifference which did not harmonise with the facts or the practice of Co-operative Organisations which were not, and had no intention of being, indifferent or inactive where the interests of the Movement were involved. The term is to-day almost completely misleading and its use has been abandoned in favour of "independence" by many Co-operators. But to reject the term is not necessarily to abandon all the underlying ideas, and the Commission will attempt in the paragraphs which follow to bring out, as far as possible in a positive manner, certain considerations of significance for the formulation of co-operative policy in regard to politics and religion under contemporary conditions.

To begin with, there are considerations which may be called internal, because they concern the relations of a co-operative with its members. They have already been touched

upon in this Report under the head of Membership. There should be no discrimination, either among applicants for membership or among actual members, on religious or political grounds. No one should be obliged to subscribe to any doctrinal declaration. This leaves the member entirely free to hold whatever belief or opinion he chooses or to adhere to any religious or political organisation which attracts his sympathy and loyalty. On its side, the society will not compromise its freedom to carry out its proper co-operative tasks through subservience to any political party or religious organisation and will abstain from taking up attitudes on purely party-political or religious issues. Such a policy would not appear to involve any great formal difficulties in its implementation.

No firm line of demarcation can be drawn between internal and external considerations. They merge into one another. The external considerations are obviously those which spring from the relations of the co-operative unit, or the Co-operative Movement as a whole with the external social and political system. Economic interests and doctrines play an important, often a dominating role in the shaping of political policy and the choice of its objectives. Co-operation, as a movement with an economic doctrine of its own and representing well-defined economic interests, cannot avoid involvement in affairs of government, which, whether they are or are not the subject of party conflict, are in their nature political. The action developed by the International Co-operative Alliance and a large number of its affiliated Organisations to promote the greater enlightenment of consumers and more effective protection of their interests include efforts to influence the legislative and administrative measures of governments, as well as the opinions, attitudes and policies of the national Co-operative Movements. Or again, it is inconceivable that at a period when the productivity and prosperity of agriculture are objects of such great concern to governments, agricultural Co-operative Movements should deny themselves the privilege, even if they do not regard it as a duty, of expressing the views of their members, giving government the benefit of their experience when it is considering farming policy and rural welfare, warning it against mistakes and complaining if the results are unsatisfactory.

Much inevitably depends on the manner and methods by which the Co-operative Movement seeks to intervene in a given political situation. On the one hand, Co-operative Organisations need to choose the methods which promise to be most effective. These range from private representations to government departments and deputations to Ministers to lobbying in parliament, agitation among the public or alliances, temporary or permanent, with political parties. On the other hand, they have to consider which methods will secure the maximum of consent and support among their members and entail the minimum risk of division. Those Co-operative organisations are not necessarily the most powerful or influential which take part in election campaigns and seek representation in parliament. Those which are content to work on the administrative level and have earned the confidence of government because of the wisdom and objectivity of their advice, may play an even greater role in shaping policy and determining final decisions. From the point of view of keeping the members' loyalty and support, those organisations which adopt a consistent policy of non-partisanship, that is to say, independence of party and entanglements and intervention based exclusively on co-operative interests and co-operative principles, are obviously on safer ground. The overriding consideration is that any weakening of a co-operative's unity impairs its power to act effectively, not merely in the political field, but in all the other fields as well. Yet in these days, it is not always safe to abstain from taking up attitudes or engaging in action on political issues which have any bearing on the Movement's interests or prospects. To declare neutrality, as has been well said, is to express a political point of view in any case. It is consistent with the aims and spirit of the Co-operative Movement that its leaders and members will endeavour to act, in political as in other matters, so as to promote unity and reduce conflict by seeking at all times the highest common measure of agreement.

This consideration is of the utmost importance if the Co-operative Movement is to make its most effective contribution to the solution of those great human problems, which although they cannot be resolved without governmental and inter-governmental action of more than one kind, transcend politics and even religions. Great world issues—such as the avoidance of war, disarmament and the consolidation of the bases of peace through the extension of international collaboration in every sphere; the deliverance of the under-privileged half of mankind from hunger, want, squalor and ignorance; the assertion and maintenance of human rights to individual freedom, equal citizenship and personal development—are not questions on which Co-operators can profess neutrality or indifference. The Movement's philosophy and its practice, the whole trend of its growth and extension, are carrying it onwards towards an era of international integration of which the International Co-operative Alliance is the precursor and, in a sense, the progenitor.

The present generation of Co-operators, moving about the world to a greater extent than any previous one, is learning from its own experience that co-operative brotherhood transcends all limitations. It is of the utmost significance that in congress after congress of the International Co-operative Alliance the delegations of the national movements, whatever their social, economic or political background, will make every possible concession and strain every resource of language and phraseology in order to secure unanimous agreement on resolutions about international peace. In this way the practice of the Alliance illustrates the statement in its rules that Co-operation "is neutral ground on which people holding the most varied opinions and professing the most diverse creeds may meet and act in common". Just as peace is not simply the absence or cessation of war, so the attitude of Co-operators to political questions is not simply the negative one of abstention, but the positive reflection of their resolve to meet and work together on common ground.

It will be clear from the foregoing that the Commission feels that it cannot follow the Report of 1937 in giving the same absolute authority to Neutrality as a principle. Neutrality in certain circumstances is a right and proper policy. There should be freedom at all levels of the co-operative structure for the individual members, primary societies, secondary organisations and international institutions, to take to political questions the attitudes which are necessary or most appropriate to their circumstances at any given time or place. This freedom includes independence of alliances or engagements which may impair the performance of their basic task in the economic and educational fields. It is also subject to the primary need of promoting at all levels that unity amongst co-operators which is indispensable to the successful fulfilment of the Movement's mission.

## **6) Business Practices**

Under this heading the Commission considered two important groups of problems which, if not of equal interest to all types of co-operative association, are of special concern to all those engaged in trade, whether in consumers' or producers' interests.

In respect of both the Rochdale Pioneers made strict rules for themselves. They decided to practise cash payments in buying as well as selling. They also decided to deal in goods of the highest standards of purity, and, when selling them, to give full weight and measure. The Report of 1937, while it made no reference to the second rule, declared that the first was a principle to be closely adhered to for both financial and moral reasons. In the judgement of the Commission these rules are applications to particular problems, within a limited field, of considerations which need under present-day conditions to receive a broader formulation and are capable of considerably wider application. Although neither has the universal validity of a principle, they are nevertheless so important as guides to business policy as to require discussion in this report.

To begin with, it should be borne in mind that the term "cash trading" has never meant simply that goods have to be paid for at the moment they are handed over the counter or delivered at store or domicile. General trade practice has always permitted a little latitude. A few day's delay in payment is not held to conflict with the cash rule especially if payments are regularised so as to be conterminous with the receipt of wages or salaries, weekly, fortnightly or monthly. And, if consumers' co-operatives find themselves obliged to conform more or less to what is considered sound practice in retail trade in general, the same is also true, say, of agricultural marketing or industrial producers societies, which allow their customers whatever trade terms are usual in a given market. Cash trading and its alternative, credit trading, in one form or another, require to be considered together in the light of what common sense indicates as financially sound. Despite the strictness of the Rochdale rule, it is not possible to say that either is at all times entirely good or entirely bad. Each stands or falls in relation to the whole set of circumstances in which it is employed.

The Rochdale Pioneers had good reasons for adopting their rule of cash payment. Experience of earlier co-operative enterprise had shown them that unregulated, indiscriminate credit to members could be a mortal disease to young co-operatives. So long as their range of commodities was virtually limited to foodstuffs of daily consumption, in which the turnover was rapid, they could well dispense with credit. Apart from safeguarding the liquidity and financial stability of their society, they desired to help their members to emancipate themselves from debt, mainly to shopkeepers. When wages are low and employment irregular, the retailer is the working-class consumer's nearest source of credit after his savings are exhausted. The position of the small agriculturist living on subsistence level or even below, is very similar and leads to similar results, chief among them a debt-servitude which may be lifelong. The remedy, though applied in different ways and through different forms of organisation, is fundamentally the same, a financial discipline which encourages and assists thrift, while making unregulated and unsecured credit difficult or impossible. People who consciously suffered under a burden of debt could be roused to make the effort involved in changing their buying habits, if liberation were brought within their reach by co-operative enterprise.

It would be different with a later generation, born and brought up under more comfortable and easy conditions. Higher earnings, greater spending power, greater family possessions in savings and real property, rising standards of comfort, a rise in the social scale, a widening range of goods and services on which money could be spent—all played their part in creating among the public a mentality easily accessible to the suggestion of the salesman to buy now and pay later, dividing the total due into periodic instalments within the customer's earning capacity. Under these conditions co-operative societies, whether consumers' co-operatives extending their assortment of commodities from food to clothing, ironmongery and furniture, or agricultural societies extending their business into, say, machinery, were forced to face the fact that they could not secure or retain their members' custom without providing facilities for payment equal to those offered by their competitors. The traditional rules were breached and the breaches were widened. Even the rule in the agricultural co-operative movement of granting credit for production rather than for consumption was no longer applicable in those newly developing countries in which the cultivator had to receive credit in order to subsist and work until his crops were harvested and marketed. The private merchants and producers made him advances on the security of his growing crop; unless a co-operative could do the same it was hardly in business at all.

The crux of the question is how far, if at all, the grant of credit should be combined with the purchase or sale of commodities. Credit is a service which entails costs like any other. Members of a co-operative society purchasing on credit receive a service which, unless a special charge is made, they obtain at the expense of the cash-paying member.

This is inequitable, and the costs may also be difficult to calculate when they are incurred in innumerable tiny transactions. The general practice of consumers' co-operatives is, therefore, to require purchases of food and small household articles to be made for cash, all the more because the commodities are, for all practical purposes, consumed immediately. For larger and more durable articles it is possible and usual to make special arrangements, including the payment of an appropriate interest to cover extra costs and risks.

Here again, the question of combining credit with trade arises in another form. Are members of the sales staff competent to judge credit-worthiness and allow credit? The answer must be: not by any means always, unless they undergo special training. The alternative is to set up a special credit union or credit department, operating alongside of the selling departments, to take the responsibility of extending credit, and so enabling the trading departments to work to all intents and purposes on a cash basis. It would seem that unless special care is taken to separate credit from trade, societies are liable to incur costs of which they may be for a long time unaware. Societies are naturally anxious to increase their volume of trade, but an increase obtained by extending credit at too high a cost cannot be regarded as sound business. A further factor is the heavy drain credit, when it is extended for six or eight months, may make on the capital resources of an agricultural trading society. The capital employed for members' credit is not available to the society for its development. It is inevitable therefore that, where no co-operative credit organisation already exists, co-operators think of creating one especially in order to relieve the burden on the trading societies.

When the problem of credit is considered from the standpoint of the members, the outstanding fact is that they are exposed all the time to the blandishments of sales people of all types, offering all kinds of commodities on what are called "easy terms" which may turn out to be impossibly hard. The evil results of yielding to the temptation to overspend and the usurious practices of many credit-selling enterprises are notorious and have been the subject of preventive and restrictive legislation in a number of countries. The problem of Co-operatives which desire to avoid placing themselves and their members at a disadvantage by not providing credit facilities is to provide credit on fair terms for them without joining in the competition to induce them to spend more than prudent household or farm management would permit at any given time. It may be plausibly argued that, with managed economies less liable to booms and slumps, and with full employment, the practice of splitting large items of expenditure, such as furnishing a home, into monthly instalments related to the buyer's present and prospective income, is a much less risky practice than it was, both for the consumer and a co-operative society. It is even argued that such a practice is justified in order that consumers may enjoy the rapid rise in the standard of comfort which modern technical and economic progress has made possible. Nevertheless the fact remains that the system of cash payments has its economic merits and advantages for both co-operators and their societies and that, at times, it is a mistake to forfeit them for the sake of the convenience of credit buying. Co-operatives have a responsibility towards themselves and their members to decide carefully when, and in what manner, it would be permissible to rely on credit, especially in regard to articles of consumption.

The important thing is to hold the balance fairly and, for co-operative societies especially, to look at the question of cash or credit policy, not only from the standpoint of their own business advantage, but also from the standpoint of the true economic and moral interests, short-term and long-term, of their members. Moreover, societies will be failing in their educational duty if they do not take pains to instruct their members in the issues involved, so that they make intelligent decisions which will later justify themselves by their consequences, in terms of both co-operation and good household or farm management.

The reasons why the Rochdale Pioneers found it necessary to emphasise their determination to sell goods which really were what they professed to be and not to cheat in weighing and measuring are well-enough known to economic and social historians. They were adulteration of food and other malpractices common in distributive business in the first half of the 19th century in Europe, and by no means unknown in our own time. But the idea underlying the Rochdale rule has to be expressed in a much broader context today and in the future. It is that co-operative institutions, in all their activities and especially where they have to deal with the general public, should be characterised by a high sense of moral and social rectitude. When there is scarcely any branch of commercial activity in which co-operatives of one type or another may not now be found, co-operative institutions should be able to justify their existence, not only by the advantages they yield to their members, but also by their sense of responsibility and their high standards of probity in all that they undertake. The temptation to copy the doubtful practices of competitors should be resisted, even when societies appear to suffer financially because of them. Adulteration, said one 19th century publicist, was an aspect of competition. It is to the honour of the Rochdale Pioneers that they began to shift the area of competition from fraud and adulteration to purity and good quality, some years before the state intervened to set minimum standards and to punish those who failed to observe them. More than one co-operator, versed in the economic and social problems of the newly-developing regions, has emphasised that a similar role could be played by the Co-operative Movement in countries where the government has not yet been able to deal effectively with adulteration. Just as consumer co-operatives can set standards of purity in foodstuffs, so it is possible for agricultural societies to counteract dishonest trading by supplying farmers with goods and chemical fertilisers of good quality.

The conferences on the protection and enlightenment of consumers, convened during the past eight years by the International Co-operative Alliance, have given plenty of evidence that governments cannot be relied upon always to give adequate protection to consumers or even effectively to enforce their own legislation. The rise of consumers' protection associations in several countries and their establishment of an international secretariat is proof of consumers' suspicion of and discontent with the manner in which they are sometimes treated by the manufacturers and sellers of new products or old products, made or preserved by new processes, which do not justify in use the claims made on their packages or by those who advertise or sell them. The relatively slow processes of protective legislation mean that it nearly always lags considerably behind the inventiveness of manufacturers and technical innovators in making new marketable products. There is therefore still need of an organisation like the Co-operative Movement which can, not only agitate and protest, but supply economically practicable alternative products which are genuine and reliable. No less than the Rochdale Pioneers, the Movement today is capable of shifting the ground of the competitive struggle and of leading trade into new and socially reputable paths. But if it is to do so, the ethics of co-operative business must be invariably high, higher and never lower than the law requires, and publicly known to be so.

## 7) Education

It is no mere coincidence that so many eminent pioneers and leaders of Co-operation have been also great popular educators. The effort to reshape the economic system on the basis of Co-operative principles requires a different discipline from those of either individual or governmental enterprises. Co-operation as a form of mutual aid appeals to other motives than man's selfish or self-regarding impulses or obedience to duly-constituted authority. Collective self-discipline is not a wild or self-propagating, but a cultivated growth. Co-operation requires of those who would practise it effectively the acceptance of new ideas, new standards of conduct, new habits of thought and be-



haviour, based on the superior values of co-operative association. No co-operative institution, therefore, can be indifferent, in its own interest and for its own survival, to the need for educating its members in appropriate ways.

For the purposes of Co-operation, however, education needs to be defined in a very broad sense which includes academic education of more than one kind but much besides. It includes both what people learn and how they learn it. Every phase of experience, which adds to people's knowledge, develops their faculties and skill, widens their outlook, trains them to work harmoniously and effectively with their fellows and inspires them to fulfil their responsibilities as men or women and citizens, can have educational significance for Co-operation. Less and less in the contemporary world can education be limited to what is learnt in schools and colleges at special periods of people's lives. The Co-operative concept is of education as a life-long process.

All persons engaged in Co-operation need to participate in this process of education and re-education. For the present discussion they can be divided into three groups. There are, first, the members, those in whose interests co-operatives are established and who, because of their democratic constitution, collectively exercise supreme authority over them. There are, in the second place, the office-holders, whether they are the members' elected representatives or professionals employed by the co-operatives. The education which both these groups require consists mainly of knowledge, the acquisition of technical skill, and a training in co-operative conduct and behaviour. The knowledge must be as accurate, as systematic and as up to date as they have time and capacity to absorb. It will include not only knowledge of the special forms of co-operation in which they are engaged but also knowledge of the economic and social environment in which their societies operate.

In respect of the elected officers it will include a great deal of business knowledge; in respect of the professional employees it will include all that will make them at least as competent as those engaged on the corresponding levels of the private and public sectors of economy. The employees will also need the best available training in the appropriate techniques, that is obvious. It is not so obvious and therefore needs emphasis, that the democratic processes of co-operation need technical skill quite as much as the economic, and that the members and their representatives need to be trained to use these processes skilfully and effectively to their society's advantage. Without drawing hard and fast lines, it may be said that the education of the members forms part of adult education and is carried on today in a decentralised manner by methods of discussion and various kinds of group work, whereas the education of employees and officials for careers in the Co-operative Movement is carried on in technical training institutions and universities. The establishment by national co-operative organisations of central co-operative colleges and training schools is today, it is gratifying to note, becoming normal. The number of universities with special institutes or departments for co-operative studies and research is also on the increase.

The third group consists of people who are potentially, rather than actually co-operators—the greater public still outside the Movement's membership. More and more, with the passage of time, the Co-operative Movement will be obliged, if it is to make headway, to keep the public better informed than in the past about its aims, its organisation and methods, its achievements and its plans for the future. Further, when it has a point of view justified by its own experience, which needs to be put in the interests of the whole body of consumers or producers on an issue of public policy, it should speak out with clarity and force. The battle for the acceptance of co-operative ideas has to be fought in the intellectual, as well as the economic field.

In the view of the Commission, education of appropriate kinds for the different groups of persons who make up all but the very simplest of co-operative societies is a

necessary responsibility of co-operative institutions. It by no means follows that they all have to provide every kind of education they require. The expansion of national systems of public instruction can and will take some of co-operators' educational burdens off their shoulders. Nevertheless, it will not relieve the Co-operative Movement of the educational responsibility it alone can discharge of educating people in the ideals of co-operation and the proper methods of applying its principles in given circumstances. It cannot devolve this function on any other institution. Of course, the many thousands of small co-operative societies in remote neighbourhoods have few resources for educational work. It is therefore the duty of the secondary organisations, more particularly the unions and federations which undertake promotional and supervisory functions, to provide all kinds of assistance—publications and audio-visual aids as well as technical guidance—which will ensure that there is in every locality a nucleus of alert, reasonably well-informed co-operators with an outlook extending beyond the area of their primary society.

The Commission would emphasise the fact, of which co-operative educationists have become increasingly aware in recent years, that the movement's educational standards must be constantly rising if they are to match those of the outside world. The structural changes which the Movement in many countries is now being obliged to make, with all the concentration and construction of larger-scale operating units they entail, demand at the highest level personnel with experience in and training for management and administration equal to the best employed elsewhere. This problem of education is plainly insoluble apart from problems of recruitment, remuneration and promotion, but its emergence is evidence that the time has come, if it is not overdue, when the Co-operative Movement has to regard its educational activity much more seriously than it has often done in the past. It should define its educational problems in much broader and more comprehensive terms and provide in its budget sufficient funds for a well-planned educational programme.

As one example, the Commission would refer to the idea of the co-operation of co-operative organisations discussed in a later passage of this report. More and more this co-operation will have to be organised and carried on across national frontiers and from continent to continent. It is a fundamental task of the International Co-operative Alliance to promote and assist its extension, while serving itself as an instrument of collaboration for an increasing number of purposes. It should be self-evident that training for this kind of international co-operation is something which will inevitably outrun the capacity of the national co-operative schools to provide. Training for international co-operation must be established on an international basis. The Commission would therefore point out that the idea of setting up, under the auspices of the International Co-operative Alliance and in close association with its Secretariat, a co-operative education centre and training institute, is already an old project of which the Authorities of the Alliance have more than once signified their approval. Such an institute, with an international staff recruited from the most eminent co-operative educators of the world, is needed to produce leaders capable of spearheading the accelerated development of co-operation on the international level now within the Movement's reach. The time has gone by for small beginnings. The Alliance's resources are too small to permit it to undertake this task alone. The national institutions, especially those powerful organisations now operating in the field of trade and finance, should join together and come to its assistance, not least in the interests of their own future development.

The Commission has no hesitation in accepting education as a principle of Co-operation—as the principle, in fact, which makes possible the effective observance and application of the rest. For the principles of Co-operation are more than verbal formulae, more than articles in a rule book, to be literally interpreted. In the last analysis the principles embody the spirit of Co-operation, which has to be awakened and renewed in every

fresh generation that takes over the work of the Movement from its predecessors. That awakening and renewal depend, more than anything, upon the care and assiduity with which each generation keeps the torch of education aflame.

### **Part III. RECOMMENDATIONS AND CONCLUSIONS**

Summing up the Commission's examination in Part II of this report of the seven Principles enumerated in the Report of 1937, it may be said that the following should continue to be considered as essential to genuine and effective co-operative practice both at the present time and in the future as far as that can be foreseen:—

1. Membership of a co-operative society should be voluntary and available without artificial restriction or any social, political or religious discrimination, to all persons who can make use of its services and are willing to accept the responsibilities of membership.

2. Co-operative societies are democratic organisations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their societies. In other than primary societies the administration should be conducted on a democratic basis in a suitable form.

3. Share capital should only receive a strictly limited rate of interest, if any.

4. Surplus or savings, if any, arising out of the operations of a society belong to the members of that society and should be distributed in such manner as would avoid one member gaining at the expense of others.

This may be done by decision of the members as follows:

- (a) By provision for development of the business of the Co-operative;
- (b) By provision of common services; or,
- (c) By distribution among the members in proportion to their transactions with the Society.

5. All co-operative societies should make provision for the education of their members, officers, and employees and of the general public, in the principles and techniques of Co-operation, both economic and democratic.

To these we have thought it important to add a principle of growth by mutual co-operation among co-operatives:—

6. All co-operative organisations, in order to best serve the interests of their members and their communities, should actively co-operate in every practical way with other co-operatives at local, national and international levels.

In submitting the above formulation the Commission would add certain remarks. The first is that these principles are not associated arbitrarily or by chance. They form a system and are inseparable. They support and reinforce one another. They can and should be observed in their entirety by all co-operatives, whatever their objects and area of operations, if they claim to belong to the Co-operative Movement. The second remark is that, although the principles originated as rules governing the relations of the individual members of co-operatives with one another and with their societies, their application is not confined to primary societies. They should be loyally observed by secondary organisations also, with such modifications as are necessary or desirable for institutions which represent the co-operation of co-operative societies rather than of

individual persons. The third remark is that those principles, accepted in 1937 but not retained by the present Commission, are not lightly to be disregarded or thrown aside. The fact that they are not of universal application in our time does not mean that they are no longer appropriate, particularly for co-operative societies which, by reason of their youth and inexperience, cannot afford to risk strains on either their finances or the unity of their membership.

Returning to the co-operation of co-operative societies in associations variously termed unions, federations, central organisations or, more broadly, secondary organisations, serving all kinds of economic, technical and educational purposes, the Commission would point out that this co-operation of the second degree is playing in the Co-operative Movement today, and is destined to play in the future, a much more important role than hitherto. It represents, of course, no more than a natural and beneficial extension of the fundamental co-operative idea of association for mutual benefit. It is often the method by which Co-operation advances from one stage of the productive process into the next, as for example, from retailing into wholesaling and production, or from selling on a home market into exportation. Secondary organisations, if they operate at first on a district or regional basis eventually grow or coalesce into national organisations. There is no reason why this form of co-operation should halt at national frontiers. On the contrary, there is every reason of principle and practical advantage why the Co-operative Movement should break through the material and mental barriers of conventional nationalism into a new era of international co-operation. This implies, logically and practically, co-operative organisations of the third degree, like the Scandinavian Wholesale Society, the International Co-operative Petroleum Association and the International Co-operative Alliance itself.

The idea of greater unity and cohesion within the Co-operative Movement under various names—co-ordination, consolidation, concentration, integration—is gaining ground among Co-operators, for the most part as they come to realise that their most redoubtable competitors today are large-scale capitalistic concerns, vertically and horizontally integrated. There are no grounds for thinking that this competition will diminish in severity. Rather must we expect that, served by modern technical devices, capitalist enterprise will tend to continue its evolution towards oligopoly and monopoly, not in national markets only, but on the international plane in new multi-national economic units called free-trade areas or economic communities. The competition which survives will be not the competition of the greater against the smaller, but the competition of the greater amongst themselves. The Co-operative Movement is potentially among the greatest. It needs only to concentrate its power in larger units by applying consistently without restriction, from the local to the international plane, the principle of co-operation among co-operatives, to make its greatness manifest and to act successfully against the monopolies.

In order that it shall do so, Co-operators must from time to time re-examine their practices and their institutions in the light of their ultimate aims and the principles which subserve these aims. It will be necessary to discard glosses and one-sided interpretations based on expediency in order to make clear the common ground on which Co-operators can come together and work together for the ideal of a better and more fully human society than mankind in the mass has yet achieved. Such working together implies not merely the loyal collaboration, within their unions and federations, of co-operatives of any given type, but also closer and more helpful relations between co-operatives of different types on every level where this is practicable. The idea of a co-operative sector in the economy is too often an intellectual concept without a corresponding material reality, simply because of the lack of unity and cohesion between the different branches of the Movement.

The Commission is fully aware that, in thus advocating more intimate and comprehensive inter-co-operative relations, it is echoing the thoughts and language of those who first brought these questions into the foreground of discussion a generation ago. What disturbs the Commission is the lapse of time between the enunciation of sound co-operative ideas and their realisation in action and it cannot forbear to point out that the failure of many co-operative organisations to provide enough of the right type of education for their members and leaders contributes in a large measure to this deficiency. But it would also point out that the accelerated rate of progress in contemporary economic evolution has reduced, and is reducing still further, the time allowed to the Co-operative Movement to demonstrate the value of its principles and methods. The world will judge the success of Co-operation by its contribution to raising the level of human well-being as quickly as possible. Humanity at large is seeking, however blindly, for a major transformation from a system dominated by capital to one based on human dignity and equality. The Co-operative Movement, when true to its principles and armed with the courage of its convictions, can prove by practical demonstration that a world society is possible in which man is no longer the slave but the master of economic forces. Its mission is to teach the common people by demonstration how the principles which express their neighbourly and brotherly relations in their Co-operative can also inspire the mutual relations of the nations.

If the co-operative movement is to rise to its full stature, either within each country, or internationally, the several co-operative institutions must unreservedly support one another. They must act as members of a common united effort to realise the objectives and ideals of the movement as a whole. These are no less than the attainment of a stage at which conflict, monopoly and unearned profit cease to exist. The ideal of a workers' community such as the one envisaged by Rochdale pioneers, or a co-operative commonwealth desired by several other co-operators, can hardly be realised in practice except by the unstinted and united efforts of all co-operators and co-operative institutions, large and small, national and international.

Co-operators the world over should profoundly appreciate that the most important aim of the co-operative movement is the promotion of the social and economic rights of the people and that the pursuit and achievement of this high aim requires active and concerted efforts towards the realisation of world peace.

#### **Part IV. RESOLUTION OF THE 23rd CONGRESS OF THE ICA held at Vienna from 5th to 8th September, 1966**

##### **ICA COMMISSION ON PRINCIPLES**

The 23rd Congress of the ICA welcomes the report of the Commission on \*Co-operative Principles as meeting the specification required by resolution at the 22nd Congress.

Congress accepts that, while there can be differences of opinion as to emphasis or degree, the report is a significant statement of co-operative principles in a modern setting.

Congress approves the Recommendations and Conclusions made by the Principles Commission as follows:—

1. Membership of a co-operative society should be voluntary and available without artificial restriction or any social, political, racial or religious discrimination, to all persons who can make use of its services and are willing to accept the responsibilities of membership.

2. Co-operative societies are democratic organisations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and

accountable to them. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their societies. In other than primary societies the administration should be conducted on a democratic basis in a suitable form.

3. Share capital should only receive a strictly limited rate of interest, if any.

4. Surplus or savings, if any, \*\*arising out of the operations of a society belong to the members of that society and should be distributed in such a manner as would avoid one member gaining at the expense of others.

This may be done by decision of the members as follows:—

- (a) By provision for development of the business of the Co-operative;
- (b) By provision of common services; or,
- (c) By distribution among the members in proportion to their transactions with the Society.

5. All co-operative societies should make provision for the education of their members, officers, and employees and of the general public, in the principles and techniques of Co-operation, both economic and democratic.

6. All co-operative organisations, in order to best serve the interests of their members and their communities should actively co-operate in every practical way with other co-operatives at local, national and international levels.

Congress authorises the Central Committee and its Executive to take note of the decisions of the Congress on the report of the ICA Commission on Co-operative Principles at the 23rd Congress in Vienna and arising therefrom to make such recommendations for changes in the rules of the ICA as may be considered necessary for the next Congress.

### ICA RULES

Following the authorisation of the 23rd Congress, the Executive and Central Committees of the ICA made certain recommendations for changes in the Rules of the ICA. These were adopted at the 24th Congress of the ICA in Hamburg. The Principles, as recommended by the Principles Commission, were included in Article 8 and are described as \*\*“The Co-operative Principles, as established by the Rochdale Pioneers and as reformulated by the 23rd Congress of the ICA”.

\*\*At the 24th Congress in Hamburg, the phrase in the fourth Principle, “Surplus or savings, if any,” was changed to “The economic results”. This Principle now reads: “The economic results arising out of the operations of the society belong to the members of that society . . .”