



# Studies and Reports

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The Twenty-Second Congress of the International Co-operative Alliance, held at Bournemouth, England in October 1963, passed the resolution on the "Reformulation of the Fundamental Principles of the Co-operative Movement." In order to facilitate the work of its affiliated Organisations arising from this resolution, the International Co-operative Alliance thought it to be useful to make available to its members the report entitled "The Present Application of the Rochdale Principles of Co-operation" approved at its Fifteenth Congress at Paris in September, 1937. Copies of this off-print are available in English, French and German and can be ordered from its Publications Department at 2s. 6d. covering postage and cost.



## **REFORMULATION OF THE FUNDAMENTAL PRINCIPLES OF THE CO-OPERATIVE MOVEMENT :—**

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 I.C.A., 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 PRESENT APPLICATION OF THE ROCHDALE PRINCIPLES OF CO-OPERATION.

At the London Congress of the I.C.A. in 1934 the Special Committee appointed to enquire into the Present Application of the Rochdale Principles presented their Report on the first part of their task, that is to say, on the enquiry into the historical facts and their present application by Retail Distributive Societies (Consumers' Societies). It had been agreed in the early days of the enquiry that this investigation was fundamental, and by reason of the greater extension of Consumers' Co-operation within the International Co-operative Alliance in comparison with the other forms—viz., Co-operative Wholesale Societies ; Workers' Productive Societies ; Agricultural Productive Societies ; Credit Societies ; and Co-operative Banks—constituted at least half of the task of the Special Committee.

Certain of the proposals of the Special Committee having been received with opposition on the part of some of the delegates, the Congress eventually decided to adjourn their decision upon the recommendations until the work of the Special Committee had been completed. For this purpose the Report was remitted to the Special Committee, who took up the enquiry again and, as a preliminary step, decided the issue of separate Questionnaires to each of the five remaining groups above mentioned. The original Questionnaire being adapted to each group ensured that the main lines of the enquiry were identical in all the types. It must be admitted at the outset that the responses to our enquiries have been disappointingly few, and in many instances too vague to provide the basis of sure conclusions. They have, however, been sufficient to show that considerable variations exist in respect of the practice in different countries, but not sufficient in many to constitute serious abrogations of Co-operative Principle.

The method of the Committee's enquiry and the results obtained from the original Questionnaire addressed to Consumers' Societies were set out in the Report to the London Congress, and are available both in the Agenda and Report of the Congress Proceedings. Similar details concerning the other groups have been submitted to the Special Committee in several reports. It does not, therefore, appear necessary that they should be reproduced here.

We, therefore, propose to submit the results of the combined enquiries under three aspects : 1. The Principles of Co-operation as practised by the Rochdale Pioneers ; 2. Their Present Application ; and 3. Conclusions and Recommendations.

## 1. THE PRINCIPLES OF CO-OPERATION.

The Rochdale Society of Equitable Pioneers was registered under the Friendly Societies' Acts of 1829 and 1834, the basis of which was the provision of Mutual Benefits. The creation of Friendly Societies, their organisation and control, was provided for in a whole series of legislative enactments adopted between 1790 and the present time. The Societies were formed to provide the members with financial aid or "Benefits," in a word—insurance against sickness, old age, infirmity, and death. The Act of 1834 contained the provision that Societies might be formed for the foregoing purposes "or for any other purpose which *is not illegal.*" The Rochdale Pioneers with native shrewdness and intelligence, sharpened by their conflicts with the régime under which they lived and suffered and by their studies of economic and social solutions, found legal authority and protection for their Society in these Acts. The evolution of the co-operative legislation which followed fully justified their confidence and acumen. The Act of 1846 contained a new and enlarged statement of the purposes for which a Society might be formed, including "the frugal investment of the savings of the members for better enabling them to purchase food, firing, clothes or other necessaries . . . with or without the assistance of charitable donations." This latter phrase rather suggests that the legislature had not, up to that point, realised even the elementary possibilities of Co-operative Societies as trading concerns.

By 1852 some glimmering of potentialities of Co-operative Societies, or at least the direction of their evolution, had seized the minds of legislators, and the Industrial and Provident Societies' Act of 1852 was introduced and passed into law. This was the first Act of Parliament which specially provided for the formation of Co-operative Societies, taking them henceforth out of the sphere of Friendly Society legislation, or at least giving them separate legislative authority.

Meanwhile, the twenty-eight Weavers had established their Store in Toad Lane, and commenced their heroic attempt to stem the tide of competition and exploitation that threatened to overwhelm them, by the simple process of uniting in the common purpose of efficiently doing for themselves, upon a basis of mutuality and self-help, what had hitherto been inefficiently done for them at a cost which impoverished their families but provided wealth for the individual captains of industry and trade.

It will be observed, however, that at the time the Pioneers opened their Store in 1844, and, indeed, until 1852, there was no possibility of their Society being registered as a Co-operative Society, as its legal existence was only assured under the authority of a law that provided for mutual benefits. This fact doubtless accounts for the name given to their Society, the reason for which has been the subject of much conjecture on the part of the curious and of

students. There is another point in this connection worth noting, especially by those who seek in the "Laws and Objects of the Rochdale Society of Equitable Pioneers" a completed constitution and the expression of the entire philosophy of Co-operation. Only eight years after their start was the legislation adopted which gave Co-operation, as an economic system, legal recognition. The idea of "associated effort" on the part of the working population, whose first co-operative manifestation appeared in Great Britain as early as the third quarter of the Eighteenth Century, was slowly crystallising, not only in the minds of the workers themselves but also in those of the politicians, statesmen, and publicists, who were led in this direction by a choice band of enthusiasts who have always been recognised as the literary exponents and animators of the earlier efforts in Co-operation.

It is, therefore, not to be expected that the Weavers of Rochdale should produce their whole policy in a night, or even in a single document. The "Laws and Objects" of the Pioneers contained the main part of their plan, but it is necessary to study at least the first ten years of their development to obtain a comprehensive notion of the system which they founded. During that period modifications and definitions of their plan emerged from their minutes of proceedings; their practice; and the decisions of their general meetings.

In this enquiry the Committee have taken into account only those things which appeared to them essential and of permanent value. They have disregarded a number of other elements in the early History of the Rochdale Pioneers which seemed to have only a transitory importance.

After careful study of the available facts the Special Committee have come to the conclusion that the following seven points may be considered from the historical point of view as the essential Principles of Rochdale and the characteristics of the autonomous system founded by the Pioneers, for each of which justification can be found in the constitution, rules, and practice of the original Society, founded at Rochdale in 1844:—

- I. OPEN MEMBERSHIP.**
- II. DEMOCRATIC CONTROL.**
- III. DIVIDEND ON PURCHASE.**
- IV. LIMITED INTEREST ON CAPITAL.**
- V. POLITICAL AND RELIGIOUS NEUTRALITY.**
- VI. CASH TRADING.**
- VII. PROMOTION OF EDUCATION.**

## **2. THEIR PRESENT APPLICATION.**

In order to obtain a clear idea of the situation revealed by the enquiry, it would seem desirable to present a brief résumé on each of the "Principles."

### **1. OPEN MEMBERSHIP.**

**CONSUMERS' or RETAIL DISTRIBUTIVE SOCIETIES.**—The whole spirit and intention of the legislation to which we have already referred is that the membership rolls of the Societies should be wide open to admit all people of good character into their ranks and to the enjoyment of the benefits of Co-operation. Where, in later years, certain laws give liberty to a Society to limit the number of its members, it is clearly shown to be an exceptional feature, in some cases involving penalties.

The Rochdale Pioneers framed their rules to secure an open door to the admission of every fit and proper person who applied and, according to their standard, a Consumers' or Retail Distributive Society which refused membership to any proper applicant would be an anomaly.

The attention of the Committee was drawn to instances in which Societies, by their rules or periodical resolutions of the members, limit the number of the members of the Society. There are also those which fix a high entrance fee or a preliminary period of membership, any of which conditions detracts from the Principle of "Open Membership."

In the case of **WHOLESALE SOCIETIES OF CONSUMERS**, which is a simple continuation or sequence to the activities of the Primary Societies, the membership is limited to Societies of the same character and constitution, and the Principle of "Open Membership" is observed in the admission of all Societies that conform to the constitution laid down in the Rules of the Federation. The enquiry shows that this Principle is generally observed by the twenty-three Wholesale Societies which have replied to our enquiry.

**FEDERATIONS OF PRODUCERS**, only four of which out of sixteen have replied, show no essential deviation from this Principle. The case is different, however, with the Primary Societies of Producers which constitute the Federations. In these the membership is necessarily restricted by the extent of the market the Society can command for its productions and also by the special training and skill required for the technical efficiency of the Society's operations.

**AGRICULTURAL PRODUCERS' SOCIETIES** reply in the affirmative as to the observance of the Principle, and have no restrictions upon the admission of members either by the law or in their statutes.

Of the twenty-four CREDIT SOCIETIES addressed only eight have replied, four of them with a clear affirmative, while the remainder reveal slight modifications. One is a State Institution, and membership is limited to Regional Credit Societies. The remaining three exclude foreigners and/or limit the membership to a given area. This latter condition is imposed by the character of the operations, and is not a derogation of the Principle of "Open Membership," which is safeguarded by the freedom to establish other Societies in adjoining areas.

The CO-OPERATIVE BANKS reply that the membership consists of individuals and corporate bodies, but the Czech and Hungarian Banks state that they are also Joint Stock Companies. The Joint Stock Principle and Voluntary Co-operation are not necessarily irreconcilable, but the fact that shares of Joint Stock Companies may be transferred or sold on the open market involves the risk of changing the co-operative character of the institution. In fact, however, 92 per cent. of the shares in the Czech Bank and the majority in the Hungarian Bank are in the hands of Co-operative Societies.

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In the aggregate and in relation to the Movement as a whole, the cases in which the Principle and practice of "Open Membership" are not fully applied may be regarded as exceptional. It is, nevertheless, necessary that they should be noticed here and an endeavour made to secure their conformity with the Rochdale basis.

## **II. DEMOCRATIC CONTROL.**

It is clear from the replies received that, so far as PRIMARY SOCIETIES OF CONSUMERS or RETAIL DISTRIBUTIVE SOCIETIES are concerned, there is little appreciable deviation in practice from the Principle of "One Man, One Vote," without any respect to the amount of shares or other capital interest that he may have in the Society, and that is the essence of the democratic basis of the Movement.

The WHOLESALE SOCIETIES OF CONSUMERS present a considerable variety of practice. So long as the variation is in relation to the number of members and consists in the delegation of authority to vote to selected representatives, in their turn freely elected, the democratic principle is maintained. Of the Wholesale Societies supplying data no fewer than thirteen have modified the voting qualification of the membership, either in relation to share capital or purchases, while only five relate the voting power solely to membership.

All the Wholesale Societies provide opportunities to their membership to exercise their power of voting by the holding of General

Meetings of the members, though in the great majority of countries General Meetings of the members of the C.W.S. are only held annually ; in Norway, biennially ; in Great Britain, quarterly.

The election of Committees of Management and other administrative officers is secured generally by the members' meetings, either directly or through the Supervisory Councils.

The **FEDERATIONS OF WORKERS' PRODUCTIVE SOCIETIES** follow the practice generally of " One Man, One Vote " The information given is very meagre.

**AGRICULTURAL SOCIETIES.**—The replies on this question show that the Principle of " Democratic Control " is carried out in all respects.

**CREDIT SOCIETIES.**—Four out of eight state that the basis of their voting is democratic—one on shares, and three on a mixed basis ; the General Meetings of the members follow the practice of Annual Meetings.

**CO-OPERATIVE BANKS.**—With the exception of Roumania, where the State always holds a number equal to half the votes present at the General Meetings, the distribution of the voting tends to limit the concentration of power in the hands of individual shareholders. It is not possible, however, to find the orthodox application of the Principle " One Man, One Vote " in any of the Banks, though in practically all instances an attempt is made either to limit the number of shares held by any shareholder or to limit the voting power (Czechoslovakia, Denmark, Hungary).

### **III. DIVIDEND ON PURCHASE.**

**CONSUMERS' or RETAIL DISTRIBUTIVE SOCIETIES.**—Forty Organisations reply that the net surpluses of their Societies are distributed in cash according to purchases of their members ; two say that their distribution is made partly in goods ; " Centrosoyus," that dividend has been abolished on the demand of the members. In Yugoslavia the Movement is in the position of being exempt from taxation only if the annual surplus is not distributed.

The Amount or Rate of the Dividend appears generally to be governed by local practice and not to conform to any fixed standard. In certain cases restrictions are imposed by the law, usually with reference to exemption from taxation. The highest rate quoted is 15 per cent., but 3 per cent. is nearer the average.

**Dividend to Members Only** is the practice in the large majority of cases, twenty-eight Organisations replying in that sense ; six others declare that non-members' purchases are recognised and half-dividend is paid to them.



**NOTE.**—In the Questionnaires on the following five types of Societies the question relating to “Dividend on Purchase” was stated in a more general form as corresponding more accurately to their constitution and operations. The actual text was: “Does your Organisation adhere to the practice of distributing the net surplus of its trading operations to the members as a cash dividend in proportion to their transactions with the Organisation?”

**CO-OPERATIVE WHOLESALE SOCIETIES.**—Eighteen National Wholesales declare their adherence to “Dividend on Purchase,” but one of them, Yugoslavia, only on its own productions. Four Societies carry their surpluses to Reserve Funds, Special Depreciations, and/or Social Welfare purposes. The rates of dividend on purchase paid by these Societies vary from  $\frac{1}{2}$  per cent. to 7 per cent., which are usually fixed by the General Meetings after consideration of the results.

**WORKERS' PRODUCTIVE SOCIETIES** in France are the only Societies which apply this Principle solely to the workers, and thus in accord with the declared objects of these Societies. In Great Britain the net surplus available for this purpose is usually divided between the workers, the purchasers, and the shareholders, who may or may not be workers in the Society. From the reply given by the Chambre Consultative, Paris, it appears that 25 per cent. to 30 per cent. of the net surplus is allocated to the workers. In Austria and Czechoslovakia the surplus is usually placed to reserves.

**AGRICULTURAL SOCIETIES.**—The replies are in the affirmative. The Swiss Union, V.O.L.G., states that the dividend in almost all the Agricultural Societies of Switzerland is stabilised. This has been forced upon them by the Rebate Associations of the Private Traders. V.O.L.G. adds that, in this way, the dividend has, to a large extent, lost its true character and the practice no longer agrees with the theory.

**CREDIT SOCIETIES.**—Six Credit Societies reply that they do not practise “Dividend on Purchase,” and one Society uses the surplus to reduce the rate of interest to borrowers and to increase the rate to depositors.

**CO-OPERATIVE BANKS.**—The dividends of Co-operative Banks generally correspond to those of private capitalist enterprise, that is to say, they are distributed in the form of interest on shares. The Rochdale System does not appear to be applicable.

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There appears to be no serious difference of opinion as to this practice and the necessity of maintaining “Dividend on Purchase” as the basic Principle of our Co-operative Economic System, and the pivot on which the non-profit-making organisation of commerce

and industry revolves. The Committee, however, desire to draw attention to the widely varying rates of Dividend on Purchase which obtain in different countries and often between different Societies of one country, and also to the fact that in certain Societies, both Wholesale and Retail, no dividend is paid, the whole of the surplus being carried to Reserve Funds.

It is suggested that the practice of paying too high a dividend should be avoided. One of the principal aims of co-operative trading is to increase the value of real wages by supplying the wage earner with the necessaries of life at the cheapest possible rates consistent with the maintenance of the business on a sound financial basis and compliance with the general Principles of the Movement. In the practical pursuit of these aims the making of some surplus is inevitable, and it is only such surplus that should be available for Dividend on Purchases. One of the greatest services which Co-operation can render to the community is that of a price fixing standard for the production and distribution of commodities. That valuable purpose is modified to the point of non-existence in the degree in which the practice of high dividends is adopted—rather than conformity to prices based upon a reasonable margin above cost price for expenses, and taking into account the necessities of competition. In this respect, there is a great advantage in uniform methods, at least in each country.

It does, however, seem necessary, in view of the varied development of co-operative enterprise at the present time, no less than with regard to the actual membership of the I.C.A., that a more general interpretation of this Principle should be stated in this report and inserted in the rules of the Alliance. The necessary generalisation of the Principle would seem to be contained in a statement that:—

“The Principle of the distribution of the surplus amongst the members in proportion to their contribution to the operations of the Society—whether by purchases, deliveries of produce, or labour.”

#### **IV. LIMITED INTEREST ON CAPITAL.**

**CONSUMERS' or RETAIL DISTRIBUTIVE SOCIETIES.**—All Organisations that pay interest on shares—of which the returns show thirty—adhere to the practice of paying interest only at a limited rate. Six Organisations state that they pay no interest on shares. The rate most generally adopted is 5 per cent, but a few Societies go to 7 or 8 per cent. In recent years a number of large Societies have reduced their interest on shares from 5 to 4½ per cent.

**CO-OPERATIVE WHOLESALE SOCIETIES.**—All Organisations, in so far as a share capital exists upon which an interest

is paid, adhere to the practice of strictly limiting the rate paid. That rate is usually in the neighbourhood of 5 per cent. Austria is a notable exception in the payment of 10 per cent. In a number of cases, notably in Great Britain, the rate has been lowered during the post-war period and is now about 4 per cent., though the rules of the Scottish C.W.S. provide for a maximum of 6 per cent. Several National Wholesales state that they are guided by the current Bank Rate.

**WORKERS' PRODUCTIVE SOCIETIES.**—All the replies received declare adherence to the Principle of "Limited Interest on Capital," and that they follow the practice of the Co-operative Movement of their respective countries.

**AGRICULTURAL SOCIETIES.**—The payment of a "Limited Interest on Capital" is practised by the Czech Societies; the Swiss Societies have no capital. The information furnished is too meagre to make it possible to form any clear conclusion.

**CO-OPERATIVE BANKS.**—In so far as a share capital exists in the Co-operative Banks, they adhere to the practice of paying only a limited rate of interest. The limits are usually laid down in the rules, but the actual rate is decided by the General Meetings.

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Taking a broad view of the field of operations of our Movement, it must be admitted that the practice of the Pioneers in this respect is being followed with fidelity to the Principle that capital should only receive a strictly limited rate of interest.

## **V. POLITICAL AND RELIGIOUS NEUTRALITY.**

**CONSUMERS' or RETAIL DISTRIBUTIVE SOCIETIES.**—The strict observance of this Principle is claimed by forty-one Organisations. "Centrosoyus," Moscow, and one of the Unions of Denmark, Det Kooperative Faellesforbund, state that they are not neutral in politics; and "Konkordia," Switzerland, indicates that it is not neutral in religion. Thirty-nine Organisations declare that they have no organic relation with any political party. Of the remaining five, Belgium, Det Kooperative, Denmark, acknowledge close relations with the Socialist or Labour Parties, while the British Union has organised a Political Party of its own. "Centrosoyus" answers the question in the negative and explains that the Communist Party only accepts individuals.

**CO-OPERATIVE WHOLESALE SOCIETIES.**—Twenty-one out of the twenty-four Societies state that they are neutral in politics and religion; one Society is neutral in politics but not in religion; three are neutral in religion but not in politics. These latter act in collaboration with political parties in their respective countries.

**THE WORKERS' PRODUCTIVE SOCIETIES, AGRICULTURAL PRODUCTIVE SOCIETIES, CREDIT SOCIETIES and CO-OPERATIVE BANKS** all declare the observance of the Principle of Neutrality in Politics.

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It is worthy of note that none of the subjects included in our Questionnaires has received greater attention than this Principle of Neutrality in Politics and Religion. Few, if any, have been replied to with such definiteness and precision. With the extension of the enquiry to other types than Consumers' Retail Societies, the number of National Organisations replying has increased from forty-five to ninety. Of this total, no less than eighty-four have declared their adherence in principle and in practice to Neutrality in Politics.

In view of recent developments in the forms of National Government and the interpretation which in some countries is given to the status of nationality, it seems to the Committee that it is necessary to give a wider interpretation to the Principle of Neutrality as applied to the Co-operative Movement, National and International. They, therefore, suggest that in rules and documents setting forth this Principle it should be clearly stated that Neutrality applies equally to Politics, Religion, Race and Nationality.

The Committee desire to emphasize the fact that the Political Neutrality of Co-operation is not a renunciation of the responsibility of Co-operators to defend the legitimate interests of their economic system before the legislature, but rather a strengthening of their defence by reason of its freedom from identification with any particular political group or party, thus enabling the Movement to give the most catholic and representative character to its claims, whether for equitable and just treatment under the law ; the reform of the law ; or even new legislation.

Neutrality further implies the full recognition of the universal appeal of Co-operation to the community on the grounds of economic and social betterment, free from any implication of a political label attaching to the membership of a Co-operative Society.

## **VI. CASH TRADING.**

**CONSUMERS' or RETAIL DISTRIBUTIVE SOCIETIES.—**  
The replies given by forty-five Organisations to the questions posed under the heading of "Cash Trading" are far from satisfactory and, in many instances, are vague and even irrelevant. In some cases the Organisations do not appear to have clearly seized the import of the supplementary questions. We, therefore, only

give the replies to three out of eight sub-headings of the Questionnaire on this subject, viz. :—

**Sales to Members :** Twenty-one Organisations declare that the Principle of “Cash Trading” is laid down in their rules, while an equal number state that their rules impose no obligation in this matter.

**Societies' Purchases :** Nine Organisations say that the purchases of their Societies are made for cash.

**Proportion of Credit Trade :** A return of the proportion of the credit trade of these Organisations seems very difficult to obtain. About twenty of them give figures or estimates of the position which it is difficult to summarise. They show variations between 5 and 90 per cent. of credit trading. Of the twenty Organisations replying to the question as to the amount or percentage of credit trading in their present operations eleven admit more than 10 per cent.

**CO-OPERATIVE WHOLESALE SOCIETIES.**—The purchases and sales of the Wholesale Societies are effected mainly on the basis of 30 days' credit. Only in exceptional cases is the interval of payment extended to 90 days from the delivery of the goods, and then usually in the case of textiles. As a rule the time allowed to member Societies to make payments follows the general practice of the wholesale trade. Financial credits to members by Wholesale Societies, either directly through their financial or banking departments, as for instance the English C.W.S. Bank, or through the affiliated banks like that of the V.S.K., Switzerland, are secured by mortgages, bills of exchange, or other securities, and in such cases the Wholesale Societies act as bankers—not as suppliers of goods. Provision of short and long term credit is, however, an exception and not the rule.

**WORKERS' PRODUCTIVE SOCIETIES.**—One Organisation replies that it practises Cash Trading and gives the period of delay between purchase and payment as 30 days. The others give the same method of payment, but describe the transaction as Credit Trading.

**AGRICULTURAL PRODUCTIVE AND SUPPLY SOCIETIES.**—It appears that both the Czech and Swiss Agricultural Producers' Societies apply the Principle of “Cash Trading” so far as it is possible. As the income of the farmer does not consist of regular monthly and weekly wages, but depends upon the disposal of the harvest, the Societies are compelled to supply him with artificial fertilisers, feeding stuffs, seeds and other agricultural implements on a relatively long term credit basis, from six to nine months.

**CREDIT SOCIETIES AND CO-OPERATIVE BANKS.**—The principle of “Cash Trading” is scarcely applicable to these Societies, and the form of the Questionnaire was varied in this

respect to comply more nearly with their operations. The following notes summarise the replies to our enquiry on **The Scope and Methods of Financial Operations.**

**CREDIT SOCIETIES.**—The scope and method of financial operations reveal that the Credit Societies are engaged in a large variety of financial transactions. The Austrian Societies grant financial accommodation in the form of personal credits secured either by wages or by mortgages. The Czechoslovakian Societies grant all forms of credits, including bills, endorsed by two persons. The Korean, Latvian, Palestinian, American and Yugoslavian Societies are engaged in financing producers, farmers, artisans, and grant personal credits. Only the French and Hungarian Societies limit their activities to farmers and artisans. The securities offered include practically all financial instruments, including bills of exchange, overdrafts, financial bills. The rates charged vary considerably, being determined to a large extent by the financial conditions prevailing in the respective countries, and, since the data supplied comes mainly from countries with relatively high costs of capital, it is no wonder that rates are rarely below  $5\frac{1}{2}$  to 6 per cent., in some countries rising to  $8\frac{1}{2}$  to 9 per cent. It is worth noting that the rates charged to clients are in practically all instances fixed either by the General Meetings of the members of the Societies or by Government authorities. Only in Yugoslavia and to a certain extent in Latvia are the rates of interest fixed by the Board or Supervisory Council. This undoubtedly shows that the membership has a considerable influence upon the financial policy of the Societies.

**CO-OPERATIVE BANKS.**—In the case of the Co-operative Banks, the analysis of the Rochdale Principles is closely connected with the enquiry into the Scope and Methods of their Financial Operations and the structure of their liabilities and assets.

The Czechoslovakian Bank has a relatively large percentage of its capital invested in financing private persons and private firms, Kc.25 million, in comparison with a total of Kc.144.4 million. The English C.W.S. Bank has £2.2 million of credit granted to private persons of a total of £86 million, but this figure does not include the investments in Government Funds and other gilt-edged securities which indirectly constitute the financing of private business. The Swiss Bank shows that mortgages to private persons and private firms amount to Fr.18.8 million out of a total of Fr.46.3 million, while the Hungarian Bank shows advances to non-members of Pengö 4.5 million out of a total of Pengö 8.6 million. It is obvious that the percentage of capital invested in financing private enterprise largely determines the co-operative character of the financial institution.

Not less important is the composition of the liabilities. Of the total liabilities of the Czechoslovakian Bank, amounting to Kc.162.9

million, the deposits of private persons and private firms amount to Kc.44.3 million, or about 27 per cent. of the total. In Great Britain the deposits of the C.W.S. Bank are composed, as to 70 per cent. of the total, of investments of Co-operative Organisations and individual Co-operators, but the amount shown for "other depositors"—probably consisting of private persons and firms, though there may be also municipalities and public bodies amongst them—amounts to £8.1 million, which is, however, considerably less than the amount invested by the Bank itself, directly or indirectly, in private enterprises and Government securities. Other Banks do not give the amount of private deposits, but simply give "other depositors," which is a too general term and not helpful to our enquiry. The Czechoslovakian Bank gives a complete and clear classification of the composition of its liabilities.

The information concerning the scope of financial activities and the structure of the assets and liabilities is, however, too meagre to permit of any general conclusion.

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In reviewing the question of Credit Trading in the light of the further enquiries that have been addressed to the other types of Co-operative Organisation, no less than of the discussions which have taken place on the present application of the Principle, the Committee desire to make some observations of a more or less general character. They would remark, in the first place, that it does not seem to be either a practical or a reasonable proposition to arbitrarily define Cash Payment as taking the goods with one hand and offering the cash with the other.

The Committee are agreed that the system of Cash Payment, uncompromisingly laid down in the First Laws of the Rochdale Pioneers, was applicable to Consumers' or Retail Distributive Societies. The Pioneers in framing their constitution were only concerned with Consumers' Societies. The various types which have since been developed, having different constitutions and methods of work, call for special consideration of their needs. At the same time, the Committee would emphasize the fact that the Consumers' Societies remain the most important and numerous Organisations of the Movement and, indeed, must ever remain so in an Association which claims to be based upon the consumer's need, to defend his interests and, in short, to speak for the community.

Nevertheless, the Committee agree that it is necessary to examine more closely than has yet been done the needs of all forms of co-operative enterprise in relation to this Principle.

In the case of Wholesale Trading, it is revealed in the answers to our enquiries that the Co-operative Wholesale Societies conform to the usage of wholesale trade throughout Europe. In some of the

replies it is suggested that the wholesale trade usage of a delay of 30 days between the purchase and the payment for the goods is, in practical effect, payment for cash. The system of monthly settlements is not so much a granting of credit as a more efficient means of dealing with a multitude of transactions, none of which can be completed on the spot, and which do not correspond to the ordinary purchases of household goods or consumer needs in a retail store. The Committee see no reason to reject the contention that this usage of wholesale trade is, in effect, Cash Payment for that class of transaction.

The credits accorded by the Co-operative Banks to Societies, whether in the form of overdrafts or secured loans, are facilities for their business which all Co-operative Societies are, at one time or another, compelled to use. Agricultural credits to Primary Producers are co-operatively organised and universally accepted as essential to the proper development even of Co-operative Agriculture. No one would dream of suggesting that Societies of any type using financial credit in either of these ways were abrogating Co-operative Principle.

The modern organisation of distribution calls for certain relaxations in the rigid definition of Cash Trading which we have described above, as, for instance, in the delivery of milk which it is necessary to deliver quickly and in the early morning, while leaving the payment until later in the day; of articles sent to the home of the customer for choice, or even trial, which are left for some hours and payment made when the transaction is completed. To describe these transactions as credit, or even non-cash, transactions is an abuse of terms.

These illustrations are cited to demonstrate the need for reasonable definition, and not to detract in any way from the importance of the Principle of "Cash Trading" as applied to Consumers' Societies and to individual Co-operators in the satisfaction of their personal needs. The evil of Credit Trading, properly so-called, lies in the temptation that is offered to Co-operators and their families to incur debts which they are not able to support, and that for the purpose of augmenting the trade of the Societies rather than benefiting the members.

The moral advantage to the character and well-being of the members, as well as the financial soundness of the Societies, of adherence to this rule is emphasised by all the authorities to which we have had access. Their arguments and conclusions on all these grounds appear to be unassailable. The Committee are of opinion that in close adherence to the Principle of "Cash Trading," so far as it refers to Consumers' Co-operative Organisations, lies one of the strongest claims of Co-operation to be considered as an Ideal Economic System.



It may be well to remember here that the Vienna Congress in 1930 considered a special report on this question, and re-affirmed the traditional condemnation by the Co-operative Movement of Credit Trading by Co-operative Distributive Societies, and also those modern systems of selling on credit invented by private traders for increasing their business and their profits. The Congress further recommended that special Savings' and Credit Co-operative Societies should be set up on the basis of those Societies which, for the previous fifteen years, had successfully solved the problem of credit requirements, including credit for household needs.

## **VII. PROMOTION OF EDUCATION.**

The "Objects" of the Rochdale Pioneers were set out in the first Rules, or "Law First" as they entitled it. Its concise and comprehensive phrases contain a whole system of economy sufficient for the basis of a new social order. Its famous and much quoted paragraph—"That as soon as practicable this Society shall proceed to arrange the powers of production, distribution, education, and government, or in other words to establish a self-supporting home colony of united interests, or assist other Societies in establishing such colonies"—is clearly an echo of the teaching, experiments and inspiration of Robert Owen, with whom most of the Pioneers had been in close and sympathetic collaboration.

That their practical experience led them to pursue a course which seems to leave their communal ideals stranded, furnishes no argument either against their ideals or the soundness of those portions of the plan which they undoubtedly put into operation with so much success.

For our present purpose it is sufficient to note that the Promotion of Education was in the minds and in the text of the Rules of the Pioneers' Society, even before they had conceived the new economic basis provided by Dividend on Purchase. In this respect the educational aim of the Pioneers stands on equal authority with their purpose of undertaking the organisation of "distribution." It has been suggested that, as the definite provision for an allocation from the surplus or profits for educational purposes was not included in the original Rules, "education" cannot be taken as a Fundamental Principle of Rochdale. The foregoing references to "Law First" refute that argument.

That the Pioneers did from the beginning undertake definite educational work amongst the members, organised in their interest and financed from their funds, is beyond dispute. It is also clear that the kind of education which the Pioneers aimed at and put into practice was not only the rudiments of knowledge which the defective education system of that period failed to supply, but training in citizenship and in the principles and methods of co-operative development. If in some instances the rudiments of knowledge

were taught, it was only to the extent that would render the students receptive of the more specialised instruction which the Pioneers sought to impart.

William Robertson makes detailed reference to this phase of their activities in his chapter on the origin of the News Room and Library in the Rochdale Congress Handbook. He says:—

“ One of the objects the founders of the Store had in view when they formed their plans was to raise the people to a higher level by educating them, and the Committee recognised that the library was the first step in that direction.”

Again : “ About the year 1853 it became necessary that the Rules of the Society should be revised in order that they might avail themselves of the privileges of the Industrial and Provident Societies' Act which had just been passed. The Committee, feeling that the necessity of appealing to quarterly meetings for the usual sums of money for the maintenance of the library was an objectional feature, determined to make an alteration. They asked that  $2\frac{1}{2}$  per cent. of the business profits should be devoted to the educational department.”

In many cases the finances of educational work are provided out of the general funds as current expenses, and treated very much in the same way, so far as the accounts are concerned, as publicity and advertising.

This was at first the method of the Rochdale Society, but as we have shown was superseded by the definite allocation of  $2\frac{1}{2}$  per cent. included in the Rules. That percentage is still maintained in many Societies in Great Britain, though some limit the amount to  $1\frac{1}{2}$  or 2 per cent. On the other hand, a new practice is growing up amongst the more progressive Societies of basing the allocation to education on a rate per member of the Society. This plan yields a greater percentage than  $2\frac{1}{2}$  per cent.

The replies received from other countries show that in fourteen countries the allocations vary from 1 to 5 per cent., while twelve National Organisations make no allocation.

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The conclusion of the Committee is that the Promotion of Education on the broad lines of citizenship was an essential Principle of the Rochdale Pioneers, but that as our research into their records, as well as the present practice of Societies show, the exact method and percentage of allocation of the necessary funds for this purpose might well vary according to circumstances. The Committee are of opinion that the maintenance of the Principle is essential, and that regular allocations from the “ net surplus ” of the Societies should provide the means of promoting education in those matters which specially interest Co-operators as aids to the realisation of their ideals.

## **OTHER BASIC PRINCIPLES OF CO-OPERATION**

### **NOT EXPRESSLY INCLUDED IN THE ROCHDALE RULES.**

Throughout the course of the enquiry the Committee have been faced with the necessity of limiting the main lines of their Report to those Co-operative Principles expressly set out in the Rules of the Pioneers. Certain other essential conditions of the constitution and practice of Co-operative Societies have inevitably emerged during the discussions, which it is absolutely necessary to include in this Report as representing the Co-operative System, some of them to no less a degree than the seven Principles already dealt with which are enshrined in the Rules and practice of the Rochdale Society.

In this category are the Principles of "Trading Exclusively with Members" and "Voluntary Co-operation," which are dealt with in the following sections.

#### **TRADING EXCLUSIVELY WITH MEMBERS. (NON-MEMBERS' TRADE.)**

Two questions were included in our Questionnaire with a view to ascertaining in how many countries the practice was prohibited by the rules and excluded, in fact, from their transactions; also to what extent it was practised by those Organisations which recognised it.

Eight National Organisations in five countries state that their rules and practice provide for the exclusion of non-members' trade, while thirty-five Organisations in thirty countries admit the practice to an extent which varies from 0.2 per cent. to 83.7 per cent. of the annual business of the Societies.

It was argued before the Committee that trade with non-members constituted no hindrance to the application of Co-operative Principles if the profits on non-members' trade were allocated by the rules either to the inalienable reserves of the Society—even in the case of liquidation—or to disinterested enterprises, and that in some countries it was practised as a means of propaganda with a view to hastening the recruiting of new members.

The Committee are of opinion that the Principle of dealing exclusively with members cannot depend upon the constitution of the Rochdale Pioneers' Society but is inherent in the co-operative idea.

The essence of our system is that it should not make profit, and its great contribution to economic life is that it furnishes a new basis of commerce and industry—therefore of society—in which the profit-making motive is eliminated. That result can only be

realised completely when the trade of the Society is exclusively with its own members.

The question that immediately presents itself in the presence of the widespread practice of trading with the public is—How far is it possible to admit the practice and maintain the genuine co-operative character of the enterprise? The Committee think an arbitrary interpretation of the Co-operative Principle of trading exclusively with members cannot be sustained, and that the amount of transactions of a Society or Movement with other than members in the ordinary transactions of Primary Societies of Consumers should be reduced as far as possible. It is suggested that if “Open Membership” and the simple facilities for entrance adopted by the Pioneers were universally adopted there would be little ground or cause for trade with non-members, save to meet casual and accidental demands.

There is also a further type of trading which has been mentioned in the debates, and that is tendering for and fulfilling contracts of the Municipality and the State. The Committee have no hesitation in accepting the contention that in all public contracts for the service of the community the Co-operative Movement should take its part and demonstrate the superiority of the Co-operative Economy.

Co-operative Wholesale Societies in their operations of production present a less simplified problem. The necessity with every productive enterprise of disposing of its by-products, which may be either altogether unsuitable for, or in excess of, the needs of the co-operative community in whose service the production is carried on, is of very long standing and has passed into the category of things accepted. The sale of the by-products of an industry in the only markets which are open to them, whether co-operative or not, is a necessity of most forms of production. When it comes, however, to the disposal of the basic products of the enterprise, the question needs more careful consideration and even definition. Several forms of this development have been considered by the Committee.

Another fact that should be faced in this connection is that non-members' trade is closely connected with the principle of the “elimination of profit.” In so far as these types of development succeed, they must detract from the claim that co-operative enterprise eliminates profit. It is doubtful, however, whether Co-operation has ever eliminated profit but only the profit-making motive. Still further, it is clear from the replies to our Questionnaire that in certain countries where the National Organisations quite freely put their productions in the open market, they also accept the position that they should be taxed in exactly the same manner as private traders.

## **VOLUNTARY CO-OPERATION.**

The idea of obligatory membership of a Co-operative Society never entered into the conception of the Rochdale Pioneers, neither in planning their Society nor in its subsequent development. The lot of the Weavers was a hard one, and the conditions of their employment, when work was to be had, severe. They suffered from low wages, bad housing conditions, adulteration of food and the system of "truck," which were the evil emanations of the capitalistic economic system. Politically, however, they enjoyed a free citizenship a little in advance of any other country. They were free as air to risk their savings in an Utopian enterprise and to carry with them all their comrades and compatriots. The "voluntary" basis of their Society was, therefore, a "sine qua non." Any other idea was to them unthinkable.

The voluntary participation of individuals in associated effort in any country can only be restricted by the State itself, and not by any provision which it is in the power of the Association to make for itself, and it is, in fact, only in countries where limitations and restrictions are imposed by the State that the "voluntary" character of Co-operation or co-operative membership is destroyed.

There are also certain instances in which Societies are organised to serve the needs of sections of servants or employees of the State. Membership on the part of those eligible is obligatory, and the general public is excluded.

The Committee feel, therefore, that they have only to stress the need for the complete recognition of this Principle as fundamental to the Co-operative System.

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Two other subjects that have been mentioned, neither of which can be said to be essential to any definition of the Rochdale System, are "Sale at Current or Market Prices" and "The Disposal of Collective Assets," which are dealt with in brief memoranda.

## **SALE AT CURRENT OR MARKET PRICE.**

This question impinges closely upon the Principle of "Dividend on Purchase," inasmuch as it affects the genuineness of the surplus and the usefulness of the institution as a price fixing medium. Perhaps, however, its effect upon the purchasing power of the consumer is the aspect which appeals most strongly to the section of the membership which disposes of the least financial resources.

Research amongst the archives of Rochdale for guidance upon this undoubted practice of the Pioneers does not yield much result. It appears evident, however, from contemporary history that the first motive which influenced the Rochdale Co-operators was the all-round convenience of adopting current prices for their business.

It has been stated by more than one continental interpreter of the Rochdale System that the practice of the Co-operative Movement, first adopted by the Rochdale Society, of selling goods to their members at the prices current in the markets or the sphere of their societies' operations, was a Fundamental Principle of Rochdale, and they have even given it pride of place in their list. We cannot find any justification for this view. It was nothing more than a means for meeting the immediate necessities of their business, a temporary expedient which possessed nothing of that "eternal principle of life" which characterises the true fundamentals of the Rochdale System. Sale at current prices provided a margin over the cost of the commodity which would cover the cost of management, depreciation, interest on capital, etc., without involving loss to the Society as the trading unit. Any downward trend of prices which left out of account these elementary responsibilities of trading would not only be contrary to co-operative principles but inimical to the financial soundness of the organisation.

It also blunted the edge of the sharp opposition of private traders which the new system of Co-operation provoked, but inasmuch as one of the main purposes of the "Store" was to cheapen the cost of living, selling at market price was a double measure of protection to the growing association, to be abandoned for more drastic but equitable price cutting when the Society should reach that stage of stable and efficient organisation which would enable it to give to its members the immediate benefit of their association.

There is no reason to think that the Rochdale Pioneers attached any greater importance to this practice than is indicated above. Neither is there any ground for thinking that they regarded the market price as other than an upward limit, if not an absolute maximum. The practice which obtains in many Societies to-day of charging high prices to produce high dividends on the pretext of thrift is opposed to the spirit of the Pioneers, and is inimical to the interests of the community in general because it results in a general increase in prices instead of acting, as co-operative trading should do, as a salutary check upon the exploitation of the consumer.

It is interesting to note that where co-operative production is highly developed and distribution efficiently organised, the "current price" of certain commodities tends more and more to be decided by the policy of the Co-operative Society, and to compel the private trader to conform to its standards.

In the view of the Committee this is the proper function of Co-operation and, taken in conjunction with what has been said elsewhere in this Report concerning the usefulness of co-operative trading as a price fixing standard, they urge that the Movement in every country should direct its administration to achieve control of the markets.

## **THE DISPOSAL OF COLLECTIVE ASSETS.**

The question of the proper method of the disposal of the Collective Assets of a Co-operative Society was raised at the beginning of the enquiry and, by common consent, a question was added to the original Questionnaire with a view to ascertaining the practice of the Movement in each country. The replies received showed that in a considerable number of countries the Principle of the Indivisibility of Reserve Funds and Collective Assets was observed and, in several of them, had the force of law. In others, the provision was contained in the model rules of the National Organisation, or in those of the Societies.

In other countries, notably in Great Britain, the fund which remains over on the liquidation of a Society, after all its obligations have been met, is regarded as the property of the shareholding members of the Society at the time of the liquidation, or dissolution, and is divided amongst them in proportion to their shares. The view is held by some members of the Committee that this latter course is contrary to the Principles of Co-operation, which provide that the surplus resulting from the operations of the members with the Society shall be divided in proportion to those operations. They contend that Shares in a Co-operative Society have no claim upon any part of those surpluses beyond the limited amount of interest that may be accorded by the rules. The Reserves of the Society are accumulated from various sources, and only in part from the operations of the members. On the other hand, that portion of the Collective Assets which is derived directly from genuine co-operative activities results largely from the operations of the past members of the Society on which the members remaining at the time of the liquidation have no legitimate claim.

In modification of that view it is urged by others that the need for such a provision either in our statement of Principles, or the rules or practice of the Societies, is unnecessary in those countries where, as in Great Britain, Co-operative Societies are established without definite term to their existence, and, in fact, only liquidate or dissolve by reason of their inability to meet their obligations to their creditors when it is clear no Collective Assets remain for disposal.

The supporters of the Principle of Indivisible Reserves urge that the practice of most countries, supported as it is by the law of some, should be regarded as the correct co-operative practice and be recommended for adoption by all. That practice and law provide that the Collective Assets of a Society, after the settlement of all its just debts, shall be passed over to some other Co-operative Organisation, such as the National Co-operative Union, to be used for purposes of financing new co-operative enterprises; assisting Societies in difficulties; or to works of social welfare, education, or public utility. This recommendation is, therefore, submitted

by the Special Committee in the hope that it will receive full and favourable consideration.

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## THE ROCHDALE PRINCIPLES OF CO-OPERATION.

In concluding their Report the Special Committee desire to express their conviction that The Enquiry into the Present Application of the Principles of Rochdale Co-operation, decided upon by the Congress of Vienna, has confirmed—what the superficial evidence of general observation and knowledge gained from reports and publications of National Movements has always manifested—that the Consumers' Co-operative Movement of the world is generally, but insufficiently and incompletely, based upon the Principles laid down by the Weavers of Rochdale in the statesman-like constitution and subsequent practice of the Rochdale Society of Equitable Pioneers in 1844. It was inevitable that within the spheres of forty National Movements, each interpreting standard doctrines according to their mental or racial habitudes, and influenced, to however small an extent, by the legislative and commercial customs of their respective countries, there should develop some variations in the application of even such universally applicable Principles as those of Rochdale. Taking a broad view of the whole field of Co-operation as revealed in the replies to the Questionnaires, and with the reserve that in a few instances and in some countries rather acute divergences have been revealed, the Committee feel that there is good ground for satisfaction that the character of mutuality and solidarity of our peculiar economic system has been so fully maintained. It would appear that these Principles contain the essential principle of life which is the highest test of their genuineness. To-day the basis of Rochdale exhibits the essential elements of a new economic system capable of replacing, and we believe destined to replace, the evils of the competitive capitalistic system in civilised society.

We have endeavoured to exclude matters that appeared to us extraneous to the subject matter of the enquiry, with the result that the Report deals only with the questions of first importance to Co-operation. We have endeavoured to place the ideal basis of society outlined in the "Law First" of the Rochdale Rules, and also its historic framework, in correct perspective as secondary to the main Principles, without which the true co-operative basis cannot be assured.

The Committee, having now had the fuller opportunity of examining the additional evidence provided by the Wholesale Societies of Consumers, Workers' Productive Societies, Agricultural Co-operative Societies, Credit Societies and Co-operative Banks, desire to express their conviction that the seven Principles as set



out at the beginning of this Report still represent the essential basis of the Rochdale System, and that nothing in the modern developments of industry and commerce, or changes in economic method, has diminished their integrity.

In the course of the survey of these Principles, the Committee have indicated their view as to the necessity of a less rigid interpretation of certain Principles in those types of Organisation which, in their constitution and operations, while genuinely co-operative, necessarily differ from the simple form of Consumers' Societies for whose conduct the Rochdale System was established.

They are further of opinion that it is necessary to express the Principle of "Dividend on Purchase" in a generalised form more in consonance with the variety of activities to which it is sought to apply it. They, therefore, submit the following as calculated to meet the needs of the case.

The Committee are of opinion that there should be some discrimination in the importance to be attached to these seven points in deciding the essential co-operative character of any Society or Organisation. They suggest that the observance of Co-operative Principles depends on the adoption and practice of the first four of the seven Principles, viz.,

**I. OPEN MEMBERSHIP.**

**II. DEMOCRATIC CONTROL. (One Man, One Vote.)**

**III. DISTRIBUTION OF THE SURPLUS TO THE MEMBERS IN PROPORTION TO THEIR TRANSACTIONS.**

**IV. LIMITED INTEREST ON CAPITAL.**

In the opinion of the Committee the remaining three Principles, viz.,

**V. POLITICAL AND RELIGIOUS NEUTRALITY,**

**VI. CASH TRADING,**

**VII. PROMOTION OF EDUCATION,**

while undoubtedly part of the Rochdale System, and successfully operated by the Co-operative Movement in the different countries, are, however, not a condition for membership of the I.C.A.



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