

## **Shared Interest - and Co-operation** by Mark Hayes

16 September 1992 marked the centenary of the death of Edward Vansittart Neale, the first secretary of the Co-operative Union. For five days in September 1892 the flags of the CWS in Manchester, Newcastle and London were flown at half-mast [1], yet few within the Co-operative movement today would know his name.

Neale's lasting practical contribution was in giving legal form to the movement. With John Ludlow, later Chief Registrar of Friendly Societies, he drafted and secured the passage through Parliament of the 1852 Industrial and Provident Societies Act, which gave Co-operatives corporate status. He drafted the 1862 "federative" Act, which permitted the formation of the Co-operative Wholesale Society. He initiated the formation of the Co-operative Union, and the preliminary work on the formation of the International Co-operative Alliance, which was established after his death in 1895.

### **Producer and Consumer - the Reconciliation?**

He was less successful in his many attempts to harness the power of co-operation as an engine for transformation of the lives of working people as producers and citizens, not only as consumers, epitomised in the "home colonies" of the Rochdale Pioneers.

Neale lost a personal fortune in supporting the early attempts of the Christian Socialists to establish self-governing workshops, and the fore-runner of Co-operative wholesale distribution, the Central Co-operative Agency; experiences which convinced him of the need to secure the retail market before attempts to organise production on a Co-operative basis could have any prospect of success. By co-operating as consumers, workers could provide a market for their own labour, achieve the stability of earnings which would allow the borrowing of loan capital, and ultimately accumulate the capital needed to expand worker controlled production and for the creation of integrated forms of residential community.

Once "the English Wholesale" had become established, and had in turn begun to establish its own manufacturing facilities, it proved an unwilling instrument for social experiment and reform.

For 40 years there was debate and uncertainty as to how to reconcile the interests of the working man as producer with his interests as consumer,

leading in the end to a Pyrrhic victory of the producer interest at the Dewsbury Co-operative Congress in 1888. On the intellectual level, the "Utopian" ideas of the Christian Socialists were soon pushed aside by the "realism" of the Fabian vision of democratic state socialism combined with strong trade unions[2]. On the other hand, the new ideology justified what was already happening at the practical level: the accumulation and appropriation of profit by a consumer interest more interested in the "divi", and the expansion of low cost consumption, than in changing the world.

### **The Common Ownership and Fair Trade Movements**

With the demise of state socialism it has become appropriate to re-examine the origins of socialist thinking, and re-open long abandoned seams of thought such as those of Neale. As usual, practical action comes first, and only as a movement matures and becomes established, does it have time to examine itself and give itself a name.

The 1980s saw the blossoming of two distinct but related species, the renaissance of producer Co-operation in the Industrial Common Ownership Movement, and the "fair trade" movement, those businesses which aim to provide Third World producers, very often Co-operatives, with access to Western product and capital markets, for the benefit of the producers.

There are now over 1,000 producer Co-ops in the UK on the ICOM model, and the combined turnover of the fair trade movement in the UK, Europe and North America, was estimated at £100m in 1991, including some relatively well-known names such as Oxfam Trading and Traidcraft. £30m of investment capital has been mobilised from the public by the financial arms of the fair trade movement in Europe and the UK - the Ecumenical Development Co-operative Society and Shared Interest Society Limited. The latter is believed to represent a unique application of the Industrial and Provident Societies Act to the provision of financial services for the benefit of the community, without parallel in the history of the Act since 1852. Only recently have the fair traders established a common international identity under the umbrella of the "International Federation for Alternative Trade" (IFAT).

### **Relation to the Co-operative Movement?**

While ICOM has always been conscious of its Co-operative roots, this cannot be said of the "fair trade" movement. The impulse behind the latter is primarily charitable, rather than conventionally Co-operative, and this has often led to confusion, both internally and externally, as to what "fair trade" means in practice. The initiative in establishing these organisations has generally come from the centre, whether from development agencies, churches or charismatic "social entrepreneurs". As a result it has not been fully recognised that the

power behind the success of these organisations has been the goodwill of individual consumers and investors, and their identification with the plight of the producer.

While ICOM has achieved much, there must be, as there was in the 1850s, a question as to how far "pure" producer Co-operation can be extended, in industry as opposed to agriculture, without secure access to markets and capital. There are distinct limits to the raising of external capital either as debt or non-voting shares, and serious obstacles face any small business in competition with transnational corporations for markets. While most successful ICOM Co-ops are better organised than those of the 1850s Society for Promoting Working Men's Associations, the lesson is the same. People are never as careful about risking other people's money as they are of risking their own, and enlightened production methods are tender shoots, which rarely survive the frost of a small business's battle for markets and economic survival.

#### **Improving on Neale's Conclusion**

Neale's conclusion that both the capital and the markets for producer Co-operation could be secured through consumer Co-operation was flawed in two vital aspects, as he himself became aware towards the end of his life [3]. It is almost inevitable in a competitive market that those who bear the risk of loss in an enterprise, whether Co-operative or capitalist, become entitled to its residual profit. Secondly, there is a basic conflict between the funding of investment in growth from accumulated earnings, and the application of those earnings for the benefit of the producer and the community.

For Neale's vision to work, there needs to be an identification with the interests of the producer on the part of the consumer, and also the mobilisation of fresh equity capital to fund the needs of growth. This means, on the one hand, paying no less than a realistic market rate for capital, but, on the other hand, no more, and ensuring that the residual profit cannot be appropriated by any member, whether in proportion to transactions or to capital, but must be applied for the benefit of the whole community. Legal provision already exists in the I & PS Act for such a structure, so why is it rare in practice?

#### **The Problem of Capital**

The problem is that in the early stages of a business, when risks are high, capital is hard to attract on the terms of limited return which the business can afford, and which are consistent with a commitment to community benefit in the long run. The members of the consumer movement have rarely invested "fresh" capital, but rather accumulated the profits which, at least in the early

days, accrued from the simple decision to purchase from the society rather than elsewhere.

Once a business is successfully established, there is little doubt it could attract equity capital, sufficient to fund prudent expansion, at an interest rate only a few points above bank deposit rates. The 19th century Co-operatives could afford to pay at least one third more interest than ordinary savings banks[4]. The CWS could certainly have replaced all its borrowings with share capital, raised from new individual members, at the 14% interest rate it could have paid in 1991, and that was a bad year[5]. But at the very point in its development when the expected rate of return on assets (allowing for risk) exceeds the cost of external equity, a business becomes valuable, acquires "goodwill" in the technical sense, and its owners become loath to see their earnings diluted. Those businesses with the resources to create employment and to do so in a wholesome and sustainable manner lack the incentive to do so.

#### **Sharing Interest and Action?**

The "fair traders" are the unwitting heirs of Neale's vision. Individual consumers have provided both the market and the capital needed to provide stable earnings for producer Co-operatives. Without question, this has been motivated by a degree of altruism and solidarity, and capital has also been provided by large charitable funds. This altruistic element has always been a part of the Co-operative spirit, which Neale particularly emphasised, but without which Co-operation would fail as a social force[6]. Co-operation has to have a purpose beyond growth for its own sake, if it is to be distinguishable from conventional business. Similarly, individual Co-operators must have a purpose other than maximum personal gain.

Both the fair trade and the mainstream Co-operative movement could learn much from each other, though the linkages are currently few. Many individual Co-operators would respond positively to a re-affirmation of the social goals of the movement, including subscription for shares, if a realistic return were paid.

The ideals of Neale and his friends were politely dismissed in his time as "Utopian", and in a sense it always is utopian to challenge the inevitability of the rule of self-interest. Yet are they not more "Utopian", who appear seriously to believe that the problems of unemployment and poverty can be resolved without fundamental changes in the objects and purpose of corporate enterprise, to include a full recognition of its responsibilities to people as producers? Let us be cynics if we must, but let us not deceive ourselves.

### References

- 1 Philip N Backstrom (1974), Christian Socialism and Co-operation in Victorian England, p216.
- 2 See for example Beatrice Potter (1891), The Co-operative Movement in Great Britain.
- 3 Backstrom, op cit, p203.
- 4 Thos Hughes & E V Neale (1881), A Manual for Co-operators.
- 5 Co-operative Wholesale Society Limited, Annual Report, year ended January 11 1992.
- 6 Hughes & Neale, op cit, p215 and passim.

### The Author

MARK HAYES is the Managing Director of Shared Interest Society Limited (I&PS), Secretary of The Fairtrade Foundation and The Creative Consumer Co-operative Limited (I & PS) and a Director of New Consumer, and of EIRIS, the Ethical Investment Research Service. He was for 10 years an investment manager with 3i, the investment capital group. Further details available from: Shared Interest FREEPOST Newcastle upon Tyne NE4 5BR: (091) 272 4979 (24 hrs).

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### In Passing

*"I hold  
if the Almighty had ever made a set of men  
that should do all of the eating  
and none of the work,  
he would have made them,  
with mouths only and no hands;  
and if he had ever made another class,  
that he had intended should do all the work  
and none of the eating,  
he would have made them  
without mouths and all hands"*

*Abraham Lincoln quoted in  
The People, Yes – Carl Sandburg*