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CONSUMERS' CO-OPERATION IN GREAT BRITAIN

An Examination of the British Co-operative Movement

by

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INTRODUCTION

THE Consumers' Co-operative Movement is the largest organization in Great Britain which is both democratic and voluntary. It has 7,500,000 members, and it is roughly true to say that in every second household in the country at least one person is a member. Its funds amount to more than £300,000,000, and its annual trading operations exceed that sum. These figures are sufficient to show that the movement is of great importance both in the social life and in the economic activities of this country. Nevertheless, with the exception of Mr. and Mrs. Webb's book published in 1922, no comprehensive examination of its aims, methods and results has been undertaken; indeed, even studies of single aspects are rare. The need for such an investigation is widely felt. The general public wants information about a matter concerning which very contradictory judgments are passed both on the platform and in the press; co-operators themselves desire to learn more about an organization of which they are members, but of which they only see a very small part; economists wish to have data concerning a trading organization which is neither on the "capitalist" nor on the "socialist" model; social students would like to know something of a movement which has always pursued social as well as economic aims, and finally politicians are interested in its entry into the field of national politics.

This book is an attempt to fill the gap and to satisfy in some measure all those interested in the movement from the points of view mentioned above. The idea that a survey should be undertaken arose in the following manner. At meetings of the Association of Tutors in Adult Education it was discovered that there were often requests to lecture on the movement and that many tutors brought the subject of Co-operation into their lectures, but that the lecturers were hampered by the lack of information. Discussions were then initiated between members of the Association and officials of the movement. The C.W.S. offered to provide facilities for a thorough and impartial survey; the Scottish C.W.S. and the Co-operative Union associated themselves with the C.W.S. As a result a committee was formed of the persons whose names appear on the title-page, and who are associated with the Universities and Adult Education, in order to take advantage of this opportunity. The Committee decided to

invite the C.W.S., the Scottish C.W.S. and the Co-operative Union to send representatives to the meetings of the Enquiry Committee.

The Committee held several meetings, at which Professor J. Hilton presided. Various aspects of the movement were considered in turn, and descriptive material was placed at the disposal of the members. The presence of the co-operative representatives enabled the Committee to discuss with those best acquainted with the movement the interpretation of this material. In addition, every facility was given to the members of the Committee to visit premises, to examine books and accounts, to question officials and employees and to investigate methods and operation. It soon became evident that it would be necessary to carry out certain special investigations, and for these purposes the Committee was fortunate enough to obtain the assistance of certain research students from various universities.

A group of students at the University of Birmingham, working under the direction of Professor P. Sargant Florence, undertook many of the preliminary studies. Mr. O. F. Troutman and Miss G. Jenkin investigated the distributive and manufacturing operations of co-operative retail and wholesale societies. Miss Jenkin also made a study of the comparative consumer tastes for co-operative and non-co-operative products, and, assisted by Miss J. Le Mesurier, made by means of a questionnaire a survey of the shopping habits of a section of the community. Mr. H. Mars undertook a long and detailed investigation into the methods, costs and problems of co-operative production and investment. Mr. W. G. Symons examined the methods and problems of management and democratic control, and the trading structure of co-operative retail societies, and in the later stages of the enquiry gave secretarial assistance. Among other students were Mr. J. A. Hough of the University of Manchester, who made a study of the co-operative method of distributing profits in the form of dividends on purchases, and Mr. H. Briggs, who, working under Professor Hilton at Cambridge, studied the question of employment in co-operative societies.

The planning and supervision of the work of these assistants fell to certain members of the Committee, and in particular to Professor P. Sargant Florence; indeed the analysis of the economic aspects of the movement is entirely due to him and his helpers. Thus, at a certain period in the progress of the enquiry, two or three members of the Committee began to assume the chief responsibilities, and it was

decided to leave the task of assembling the material, conducting the analysis, and writing the book to Professor P. Sargant Florence, Professor R. Peers, and Professor A. M. Carr-Saunders. Mr. G. Darling, who had been the secretary of the Committee from the beginning and had put into manageable form a large amount of material presented to the Committee at its earlier meetings, was asked to assist the three persons mentioned above.

It is not possible to say exactly what part each of the many persons concerned have played in the writing of the book. It must be sufficient to mention that, after the majority of the members of the Committee had ceased to be actively concerned, the work went through three stages. Taking as a basis the documentary material which had accumulated and the evidence which had been collected, the three members of the Committee whose names have been given in the preceding paragraph and Mr. Darling each undertook to draft certain chapters. As these drafts became ready, they were considered by all four persons concerned at a number of meetings, and in consequence of the discussions at these meetings there was much redrafting. The second stage was completed when the drafts were found to be satisfactory in themselves. It was realized, however, that there was overlapping and lack of unity in style and mode of presentation. The final stage was, therefore, a revision of the whole book by Professor R. Peers. He undertook a most troublesome task, and the other members of the Committee are greatly indebted to him.

The thanks of the Committee and of the authors (for it seems proper so to describe the three members of the Committee) are due to the research students, whose names have been mentioned already, to all members and officials of the Consumers' Co-operative Movement, far too numerous for individual mention, who, with unfailing courtesy, have given up so much time and taken so much trouble in providing information and in answering questions, and especially to Mr. G. Darling, who acted not only as secretary of the Committee, but also as secretary to the authors. He organized the work of the enquiry from beginning to end, arranged all meetings, maintained all contacts and interchanges. Without his devoted assistance the book could not have been written.

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PART I

THE HISTORICAL BACKGROUND

CHAPTER I

THE HISTORICAL BACKGROUND OF THE MODERN CO-OPERATIVE MOVEMENT

BOTH the present co-operative movement and the principles on which it is founded are the result of a process of evolution reaching far back into the past, and it is only in the light of the past that either can be understood. The achievements and the failures of the movement alike have to be explained in their historical setting; and there is scarcely a problem of any significance in the study of Co-operation which does not involve constant reference to the forces and circumstances which have shaped its development from the beginning. We are not concerned with a piece of machinery, which could easily be adapted and adjusted from time to time to the needs of the moment, but rather with a living organism, the product of the creative forces which gave it life and of the environment within which it has grown to maturity. Further, one must think not merely of the facts of growth, but also of the purposes which have animated the movement from time to time and are still influencing it in the response which it makes to present-day conditions. It is necessary, therefore, before any attempt is made to describe the modern structure and aims of the movement, or to elucidate the problems with which it is now confronted, to trace the process by which its present form and character have been determined. What is wanted here is not a detailed history of Co-operation, even if that were possible within the scope of this investigation, but rather an attempt at historical interpretation of the movement as it now is and of the ideals by which it is inspired.

§ 1. *Early Industrialism and* Laisser-faire

The co-operative ideal is as old as human society. It is the idea of conflict and competition as a principle of economic progress that is new. The development of the ideal of Co-operation in the nineteenth century can best be understood as an attempt to make explicit a principle which is inherent in the constitution of society, but which had been forgotten in the turmoil and disintegration of rapid economic change. It is against the background of the industrial revolution, and

of the dislocation which accompanied it, that early ideas of Co-operation and the origins of the co-operative movement must be judged.

The change which came to a head in the period of the industrial revolution had been preparing long before. In this country, agrarian feudalism had early given way before the growth of commercialism, and capitalist enterprise had made rapid progress even before the coming of machinery. The large-scale system of production involved the creation of a dependent wage-earning class; it had already destroyed the small, independent producer in important branches of industry; and the change was finally completed by the inventions of machinery and by the application of power to industrial processes, which led to production on a large scale and to a remarkable extension of the principle of division of labour. The break-up of small communities, isolated and largely self-subsistent, proceeded rapidly with the growth of great centres of industry, fed by new means of transport and large-scale farming. Industry was divorced from agriculture, and the small independent producer, who depended on both, disappeared. With the concentration of ownership of industrial capital and land, labour came to be regarded as a mere factor in production, to be bought and sold like any other commodity. The labour of the individual ceased to have any direct relation to the satisfaction of his own wants. He worked for a wage, the amount of which depended not so much upon the effort he expended as upon his bargaining power against that of the employer.

These changes did not take place in a day; indeed, they are not even yet complete; but they had gone far enough by the end of the first quarter of the nineteenth century to bring about a revolution in the customary organization of society and in the manner of life of large sections of the population. The new methods of production had already greatly increased the power of human effort; but it was felt by many that the system of production for profit had diverted this increased power from what should have been its true purpose, the better satisfaction of the wants of the people. The growth of wealth in the hands of the few was accompanied by mass poverty and increasing economic insecurity. The labour of women and children was exploited, while men were thrown into unemployment by the new methods of production; and competition for the right to work kept down to a low level the wages of those who were employed.

Standards of living deteriorated in more senses than one in the sordid manufacturing towns of the early nineteenth century.

Meanwhile, the new economic system had evolved a philosophy of its own. It found a new principle of action in self-interest—the desire for gain. If every man were left free to pursue his own interest, in the sense of monetary gain, this would lead to the largest possible increase in the wealth of the nation as a whole. In order that this result might be achieved, the State in particular must refrain from interference in the direction of economic activities. If the system appeared to work out badly for the majority, this was due to causes which were inherent in the nature of things: poverty seemed to be the inevitable fate of the mass, and the desire to escape from poverty was regarded as the necessary spur to human effort.

§ 2. *The Revolt against the New Order*

It is not surprising that, just as the new system found its prophets, so also there arose, in the early stages of the industrial revolution, a new philosophy of revolt against the existing economic order to inspire the agitation against it. The struggle of the depressed classes is expressed in the early growth of Trade Unionism, in the battle for Parliamentary reform, and in the evolution of socialist ideas in opposition to the doctrines of individualism. The early co-operative movement was part of this reaction against the new order.

The first co-operative experiments were isolated attempts on the part of groups of people to provide themselves with necessaries at a reasonable price. The Hull Corn Mill of 1795 is one example of a number of similar enterprises. They had no ulterior purpose and were not linked together in any wider movement. Under the influence of Robert Owen, however, Co-operation became a new and conscious principle of social organization. Co-operation, in opposition to competition, seemed to offer to the mass of the people a way of escape from misery and poverty. It linked on to the past in its appeal to a community sentiment which was not yet dead; it was a criticism of the confusion of the age; and it offered a constructive plan for the future. Godwin had preached the perfectibility of the human race and had blamed the powers of government and privilege for existing evils.[1] His beliefs inspired the optimistic faith of Robert Owen and

[1] Godwin: *Political Justice*, 1793.

called forth the gloomy pessimism of Malthus. Land reformers like Spence and Paine,[1] believing that the monopoly of land by private owners was the principal cause of social ills, proposed to restore to the community its common birthright, and so initiated the attack on property rights. With Thomas Hodgskin[2] the attack became at once more general and more specific, since it was directed by him against all the claims of property in the form of capital to share in the product of labour. Co-operation, as it developed under the influence of Owen, was one aspect of this general attack on the claims of private property; but unlike the others, it envisaged, not the expropriation of existing property owners, but the voluntary accumulation of common possessions, in order that the many might be set free from dependence on the few who monopolized the means of production and used them, at the expense of others, for their own private gain.

§ 3. *The Owenite Phase of Co-operation*

It was by no means merely fortuitous that, just when the former basis of community life was being rapidly destroyed, Owen and his followers should have preached the benefits of Co-operation and community of possessions in opposition to the doctrines of private ownership and competition. The ideal of association was in the air. Owen was not its only advocate; but it was he who saw most clearly the nature of the conflict between the principle which he was advancing and the principle of self-interest; and it was he also who realized, with a far-sighted perception unusual in his day, the revolutionary implications of the system which he tried to put into practice.

Owen was born in 1771. As a young man, he observed the disastrous effects of the selfish and uncontrolled exploitation of the new methods of production in Lancashire and Scotland. During his lifetime, he had seen the "clean village" in which he lived as a child converted into a "dirty but thriving manufacturing town." His youth was spent among country people and small artisans; in his early manhood he became acquainted with the depressed, ignorant and dissolute masses of the manufacturing towns. Here he saw great wealth and great poverty side by side and could not avoid the conclusion that one

[1] Spence: *The Real Rights of Man*, 1775. Paine: *Agrarian Justice*, 1795–6.
[2] Hodgskin: *Labour Defended against the Claims of Capital*, 1825.

was the cause of the other. If the existing system had produced so much misery and deterioration, a different system, based on co-operation instead of competition, might be made to produce the opposite results. His aims went far beyond the mere schemes which were associated with his name; they embraced the whole future of humanity.

Thus while Fourier in France seemed merely to aim at reducing economic relationships to some semblance of order, by means of carefully regulated communities in which labour, capital and talent were to be rewarded in fixed proportions, Owen aimed from the beginning at the ultimate supersession of the entire system of private property and profit-making, in order that wealth might be devoted to the satisfaction of wants and to the improvement of the character of the human race. Fourier was concerned mainly with the rights of producers; his ideas were to inspire later the more practical propaganda of Louis Blanc, and so also, through the Christian Socialists, the rapid but ephemeral growth of co-operative workshops in this country in the fifties. Owen, on the other hand, in spite of the superficial similarity of his proposals to those of Fourier and his followers, was concerned ultimately with the needs of people as consumers, and with the enjoyment of wealth as a means to the progressive improvement of the individual and of society. He wanted to destroy "the immoral and degrading system of buying cheap and selling dear for a money profit," in order "to make all intelligent, charitable and kind to each other."

If one seeks to connect the teaching of Owen with the later evolution of the co-operative ideal in the modern movement, it is necessary to concentrate upon principles and ultimate objectives rather than upon the visionary schemes through which Owen sought to realize his aims. These projects belonged to his age; the principles which they embodied transcended the circumstances of his time and lived to inspire a movement capable of applying them under conditions which Owen could not possibly have foreseen. Owenism has been branded as mere Utopianism, and something of the same reproach has clung to the co-operative movement throughout its later history. It has become the fashion, even among the prophets of Co-operation, to repudiate Owenism as having no relation to the principles of the modern movement. This attitude, in common with that other and opposite attitude of vague belief in a co-operative millennium, seems

to arise from failure to distinguish between the projects through which Owen strove to give expression to his principles, and the principles themselves.

Co-operation, as it was conceived by Owen, was not what is meant by Co-operation to-day. He aimed at the establishment of communities settled on the land, consisting of the producers of different commodities, owning the means of production in common, and working together to satisfy their collective wants. In these communities, the body of producers and the body of consumers would be identical; there could therefore be no question of any conflict between "Producers' Co-operation" and "Consumers' Co-operation", such as was to develop later. The idea of self-contained communities on land, in which conscious and enlightened co-operation should take the place both of custom and of competition, was not so far removed from reality in Owen's day as it came to be later, when large-scale production had become the rule rather than the exception. It is easy now to perceive the futility of the hopes which these schemes inspired, and to describe Owen's plans for the regeneration of society as mere Utopian dreams; but that is only because we can now see clearly the results of tendencies which were then only just beginning to appear.

Other schemes which arose either directly or indirectly from the teachings of Robert Owen were of the same character as his villages of co-operation, and they shared the same fate. They attempted to embody a universal principle in forms which no longer corresponded to the needs of the age. For instance, the passionate desire for the "redemption of labour" and the attempt to establish "Union Shops" can easily be understood in the light of existing wage conditions and prevalent unemployment in the age which culminated in the Hungry Forties. The Union Shops differed from the villages of co-operation only in the sense that they applied the principle of self-employment to particular occupations instead of to mixed communities; they were for that reason more in touch with actuality than the former; but they were equally impracticable in the long run. Again, the Owenite Labour Exchanges, which aimed at the direct exchange of the products of labour, had in view the small, independent producer who already belonged to the past and could no longer hope to stand up against the growing competition of machinery. Finally, disappointed by the growing hostility of the powerful and wealthy, to whom he had at

first appealed, Owen turned to existing working-class organizations. In his association with the Grand National Consolidated Trades Union of 1834, Co-operation and the community idea seemed to be abandoned for a crude form of syndicalism. It was, however, a "New Moral World" that he was seeking. If one way failed, others might be tried: persuasion of the great and powerful; encouragement of the many to accumulate their pence, in the midst of poverty, in order to achieve the millennium; finally, an appeal to the united power of labour for the same end.

Meanwhile, hardly noticed by Owen himself, and certainly not regarded by him and his followers as anything more than the first step towards bigger things, there came into existence the co-operative stores, out of which the modern movement was to grow. They offered an immediate prospect of abolishing the profit of the middleman and improving the quality of consumption; and at the same time they were regarded as the means of accumulating funds for the purchase of land and the establishment of communities. The later history of the co-operative movement proves that there was nothing extravagant in the hope that groups of working people might, by taking for themselves the profits of retail trading, accumulate large funds for the development of co-operative enterprise. It was the form of the new society that was wrongly conceived, not the way to achieve it or the principles by which it was to be governed. And in the confusion of that dark age of revolutionary change, a clear vision of immediate objectives was not to be expected. It was something to have created hope in the place of despair, and a belief in creative community effort in opposition to a blind or disingenuous acceptance of existing miseries as part of the working out of immutable natural laws.

From the point of view of practical results, the story of the early co-operative movement is one of failure. Even the co-operative stores of that first period had largely disappeared by 1840. But the seeds of a new social philosophy remained and were to spring up anew in the more favourable soil of a later age. It may be well, before discussing the subsequent history of the co-operative ideal, to remind ourselves of the principles which were bequeathed by Robert Owen to the modern movement, in order to discover how far, in fact, the movement has outgrown them, and how far they are still relevant

to Co-operation as it is understood to-day. They may be summarized as follows:

(1) The abolition of the system of private profit.
(2) Production for use by voluntary associations of consumers.
(3) Common ownership of the means of production by the voluntary accumulation of the profits of combined enterprise.
(4) The utilization of the wealth of the community for the improvement of the character and happiness of mankind.[1]

No social philosophy more revolutionary than this has been advanced by later socialist thinkers. But Owen seemed to have little faith in the ability of working people to manage their own affairs. The democratic principle of control occupied no place in his immediate schemes. The complete plan, under benevolent-autocratic initiative and control, came first; the improvement of character and the removal of ignorance as a result of better conditions and education followed automatically; and the future form of society might then be left to take care of itself. It was for the later co-operative movement to make democratic control at all stages one of its central principles, and to place this control in the hands of the general body of consumers as distinct from particular bodies of producers.

In the meantime, this necessary adaptation of the Owenite system had already been envisaged by Dr. William King, of Brighton, who founded the Brighton Society in 1827 and published his ideas in the Brighton *Co-operator* between 1828 and 1830. The following passages from Dr. King's writings[2] illustrate both his attitude to Owen's scheme and his understanding of the real nature of the problem:

Co-operation being a subject quite new to the working classes, it is natural that they should be ignorant of it. If it has been heard of by them at all, it has been in such a way as to make it appear completely visionary. It has always been connected with the idea that, in order to carry it into practice, large sums of money are absolutely necessary. The smallest sum ever mentioned as sufficient for the purpose is £20,000. From this the advocates have gradually risen up to as high as a million. . . . A man wants nothing but his wages and an honest companion to begin.

After showing that small beginnings can be made by means of a

[1] Owen's views are expounded in a mass of writings extending over a long life (he died in 1858, at the age of 87). The gist of his teachings is to be found, however, in his *New View of Society*, 1813–14, and in his *Report to the County of Lanark*, 1821.

[2] Quoted by Dr. Müller in the *International Co-operative Alliance Year Book* for 1913.

common fund, and that the latter may be built up out of the profits of trading, he goes on to say:

> If a number of workmen were to join together on these principles, their capital would be greater and they might do great things. They might have a store of their own where they might deal in anything they wanted. Their store would enter into competition with other stores in serving the public. As the business increased, the profits and capital would increase. As the capital increased, it would employ the members of the Society, in any way which might be deemed most advantageous. If there was a profitable demand in the public for any particular commodity, the members might manufacture it.

This latter passage describes in advance the modern development of the co-operative movement in this and other countries.

§ 4. *The Transition to the Modern Co-operative Movement*

All the experiments which Owen himself regarded as important ended in failure. Co-operative societies which can claim a continuous existence from this earlier period, like the Lennoxtown Friendly Victualling Society in Scotland, whose minutes go back to 1826, and the Meltham Mills Society in Yorkshire, founded in 1827, remain as historical curiosities. It was a new movement which was born in 1844, although its founders, as their statement of objects shows, were not conscious of any break with Owenism.

The period of eclipse of all those movements in which the hopes of the conscious sections of the working class had been enshrined proved to be the proverbial darkest hour before a new dawn. Both Trade Unionism and Co-operation experienced a remarkable revival in the second half of the nineteenth century. It is not easy to account for the success of the Rochdale movement after the failure of the earlier experiments. There had been no lack of enthusiasm in Owen's day, although there had been less opportunity for the emergence of ability and leadership among the working classes of that period. The distribution of the surplus in the form of dividend on purchases was not entirely new in 1844; but it made a fresh appeal to a generation which, in an age of greater prosperity, came to enjoy some slight margin for the exercise of thrift, in spite of the fact that poverty still excluded large numbers from the benefits of the co-operative store. The appeal of Co-operation was widened when membership ceased to depend upon adhesion to a particular social ideal; and the system of

democratic control, which was emphasized by the Rochdale plan, fostered the development of those qualities of leadership which made the modern movement possible. Given the initial success which grew out of these conditions, the causes of further growth are to be found as much in the defects of contemporary private trading as in the virtues of the co-operative system. The small retail shop, charging high prices for goods of poor quality, maintaining its hold on an impoverished clientele by a pernicious system of credit, or, still worse, through the prevalence of the Truck system, could not always rival the well-managed co-operative store, with its emphasis on quality and cash trading at fair prices. Moreover, as co-operative trading increased, the stores were able to command capital resources which were beyond the power of the small retail trader of that day.

The movement succeeded in the second half of the century because it adjusted itself to the needs of the age, and because it initiated an economically effective form of retail trading. We sometimes forget that it was the co-operative movement which led the way in this country in the development of department and chain stores, offering standard lines of necessary commodities at fixed prices, and securing the advantages of large-scale organization and efficient service.

It is difficult to get any clear picture of the progress of the new movement before 1860. Such statistics as are available suggest, however, that growth was slow at first, and that it was not until the sixties that any rapid development took place. The following figures give an approximate view of the progress made down to 1863. Of the 460 societies existing in England and Wales in that year, the numbers established in each year are stated to be as follows:[1]

1795	..	1	1848	..	2	1856	..	12
1835	..	1	1849	..	5	1857	..	10
1838	..	1	1850	..	9	1858	..	17
1840	..	1	1851	..	10	1859	..	37
1842	..	1	1852	..	1	1860	..	98
1844	..	2	1853	..	5	1861	..	152
1845	..	1	1854	..	11	1862	..	68
1847	..	4	1855	..	9	1863	..	2

In the three years 1864–67, the number of societies registered averaged just over 200 per annum, although it is impossible to tell how many of these were older societies registered for the first time under

[1] Article by William Nuttall in *The Co-operator* for October 1864.

the new Act of 1862. In 1870 and 1871, the numbers fell to 67 and 56 respectively. There was a further increase to 112 in 1872 and 188 in 1873. After a period of steady progress at the height of Victorian prosperity, the numbers of new registrations fell to 72 in 1876, 58 in 1877, and 48 in 1878. The figures for Scotland show exactly the same tendency.

The striking thing about the next dozen years is the steadiness in the growth of new societies during a long period of trade depression, the number of new foundations averaging 72 per annum in England and Wales during the period 1882 to 1890, and rising to 104 in the latter year. By the end of the century there were 1,439 societies in Great Britain, with a total membership of 1,707,011; and the average membership per society, which stood then at 1,186, had more than doubled itself in the past twenty years.

Perhaps the best evidence that the new movement fitted in with the needs and the spirit of the age is to be found in the series of enactments which provided it with the necessary legal framework, beginning with the Friendly Societies Act of 1846, and culminating in the important consolidating Acts of 1876 and 1893.

§ 5. *The Confusion of Ideals*

The success which attended the efforts of working class organizations in the second half of the century to consolidate their own position and to improve the lot of their members was accompanied by a gradual change of attitude. Both the Trade Union movement and the co-operative movement concentrated more and more on immediate objectives and, for the time being, turned their backs upon revolutionary ideals and schemes for the regeneration of society. As a result of growing prosperity, in which the working classes obtained an increasing share, there was a dying down of the spirit of revolt. *Laisser-faire* and the appeal to self-interest appeared to be justified in their results, and the new age witnessed a progressive acceptance of the philosophy of individualism, not only by the more privileged classes, but also by the leaders of working-class movements. Attempts by coercion to change the course of events were discredited. Self-interest was recognized as the dominating motive; the law of supply and demand came to be universally accepted as the determining factor in the wages of labour as in the prices of commodities; and thrift became one of the cardinal virtues.

This acceptance of the new orthodoxy had a profound effect on social movements. The aim was now no longer to fight against the new order, but rather to fit the labouring class into it. They must acquire a place by more effective organization, by the acquisition of property and, above all, by appealing to enlightened self-interest. The justification of the co-operative movement, based on the Rochdale plan, was no longer that it would revolutionize society, but that it was one of the most effective means of reconciling private interest with the public good.

The inherent contradictions in the new position were not, of course, understood. It was not realized that the appeal to self-interest must emphasize *division* of interest. The Labour movement became, in this age, a divided movement. The skilled workers organized themselves in powerful and exclusive amalgamations, pursuing sectional ends, and leaving the unorganized, unskilled workers to their fate. The co-operative movement also came to be divided into two sections based on fundamentally different principles—associations of producers in self-governing workshops, and the consumers' movement, with the Rochdale plan as the starting-point. The full measure of this unconscious inconsistency, and of the confusion of ideas which made it possible, is to be found in the effortless transition on the part of leaders like Vansittart Neale from producers' co-operation to labour co-partnership. The principle of profit-elimination was confused with that of profit-sharing, either among associated workingmen producers, or between workmen and employers. This confusion is further illustrated by the constitution and aims of the Co-operative Union, which originated in the London Congress of 1869. Its object was stated to be "The promotion of the practice of truthfulness, justice, and economy in production and exchange," and this was to be achieved "By conciliating the conflicting interests of the capitalist, the worker, and the purchaser, through an equitable division among them of the fund commonly known as *Profit*." It was composed of representatives of productive societies, consumers' societies, and co-partnership concerns.

It needed a further period of growth and a sharpening of conflict within the movement itself before these contradictions became obvious, even to the leaders; and the issues involved are even yet not clear to the majority. In the meantime, the effect of the confusions of this period were apparent in the progressive disappearance of any clear-

cut philosophy of Co-operation and in the decline of interest among the members and leaders in the social and political implications of the co-operative system.

As the movement grew in material strength, and the number of societies and the volume of their trade increased, the active management passed more and more into the hands of permanent paid officials who, of necessity, replaced the voluntary enthusiasts of an earlier period. They were concerned primarily with Co-operation as a business enterprise and were naturally opposed to any kind of propaganda or political action which might have the effect of alienating any section of their own membership, particularly those middle-class friends of Co-operation whose influence was so valuable to the movement. The number of employees working for a wage increased, and those conflicts of interest which Co-operation was designed to remove began to appear inside the movement itself. This was another issue which had to be clarified before the way was clear for the emergence of a new philosophy, adapted both to the changed character of the movement and to the changing character of society.

The decline of interest in the co-operative ideal is illustrated clearly by a study of co-operative literature and of the reports of Co-operative Congresses in the sixties and seventies. Early Congress meetings were largely occupied with the discussion of principles. As time went on, papers on subjects of this kind were more and more "taken as read" and relegated to an Appendix to the printed Report. Finally, they disappear altogether, and Congresses come to be occupied exclusively with the discussion of trading problems and problems of organization. This change of attitude is apparent also in the deterioration of the periodical literature of the movement. For instance, *The Co-operator*, described in a sub-title as "A Record of Co-operative Progress by Working Men," edited in Manchester by Henry Pitman, and published fortnightly from 1860 onwards, contained at first and during the first ten years of its existence many articles and reports of addresses on the principles of Co-operation in relation to the future organization of society. A speaker at the Congress of 1871 stated that "for twelve years *The Co-operator* was their standard-bearer when the battle was not an easy one to fight and they had no other defender." It included contributions by men like John Stuart Mill, Henry Fawcett and E. Vansittart Neale. The fate of this publication is indicated by its later titles. In 1870, it had become *The Co-operator*,

Anti-Vaccinator and Herald of Health and it was in debt to the tune of £600. By that time it was hardly worth saving, and it died shortly afterwards. There was nothing else which could even be compared to the early Owenite journals and the *Brighton Co-operator.*

One final illustration may serve to indicate the changed character of the co-operative movement during this period of material progress. The early societies after 1844, following the example of the Rochdale Pioneers, had devoted a proportion of their profits to education. Some had even established reading-rooms and libraries. The social aims of Co-operation were recognized as being at least equal in importance to the economic benefits which it conferred. During the period of rapid growth, these aims fell into the background. Of 400 societies in 1871, analysed in an appendix to the Congress Report of 1872, only 66 devoted funds to "education"; and of these, only 35 spent amounts of £10 or more for this purpose. It must be remembered also that the term "education" included a variety of miscellaneous activities which were not in any real sense educational.

Thus the material advance made during this period seems to have been gained at the expense of clarity of purpose and at the cost of the abandonment, not merely of the Utopian and impracticable aims of the earlier movement, but also of that social sense which, if it could have been preserved, might have made the co-operative movement one of the most powerful influences in the re-moulding of thought and culture and in the reorganization of economic life in the modern world. Meanwhile, the confusion of aims became also a hindrance, in the last quarter of the nineteenth century, to the further development of Co-operation itself.

§ 6. *The Modern Co-operative System Takes Shape*

The future historian of the movement will date the modern phase of Co-operation, not from 1844, but from the foundation of the Co-operative Wholesale Society, which originated, after several abortive experiments initiated by particular societies, in the North of England Co-operative Wholesale Industrial and Provident Society of 1863. Before this joint action could be effective, the last legal obstacle had to be removed. The Act of 1862 repealed the provision of the existing Statute which forbade one society from holding shares in another and limited the holding of landed property to one acre.

In 1868 the Scottish co-operators established their own Wholesale Society, after a suggestion that the English Wholesale should extend its operations to Scotland had been turned down.

The rapid progress made by the two wholesale societies suggests that this new development also was in line with the evolutionary trend of the modern co-operative system. The annual sales of the English Wholesale Society increased from £51,857 in 1864 to over one million pounds in 1872, and by the end of the century had reached the remarkable figure of £16,043,889. Over a similar period, the sales of the Scottish Wholesale Society had increased from £81,094 in 1869 to £5,463,631 in 1900.

It was during this period of expansion that two major controversies, the product of the confusion of ideals, came to a head. The first concerned the issue between Producers' Co-operation and Consumers' Co-operation; the second, which is discussed in a later section,[1] concerned the problem of the relation between Co-operation and Labour.

The original aim of Co-operation was production for use on the basis of the common ownership of the means of production. Under the influence of the Christian Socialists, this was translated to mean the establishment of self-contained and self-governing workshops or factories, in which the workers owned the plant collectively and divided among themselves the profits of the undertaking. It was not clearly understood that the division of profit among associated workmen was not the same thing as the abolition of profit by dividing it among the co-operative consumers in proportion to the amount of their purchases. During the early part of its existence, the Co-operative Wholesale Society was persuaded to support a number of small-scale productive ventures of the co-operative workshop type, and it shared in the heavy losses which the inevitable decline of this type of concern involved. When the C.W.S. itself embarked upon productive enterprise in 1872, it did so in the face of bitter opposition from many of the staunchest friends of Co-operation.[2]

The last quarter of the nineteenth century saw the rapid expansion of productive enterprise, either under the direct control of the whole-

[1] See page 43.

[2] Although this inherent contradiction between two conflicting conceptions of Co-operation remains to-day, the predominance of the consumers' movement has reduced it to negligible proportions. Retail societies in effect control a number of productive societies, either by their shareholding, or by the fact that they purchase such a large proportion of the output. See p. 191.

sale societies, or under the control of retail societies, acting singly or in federations established locally. The rival schemes of production within the consumers' movement were to cause difficulties at a later stage; but the principle of control by the organized consumers was sound. A real attempt was made to put into practice the ideal of production for use when the movement, either locally or nationally, began to manufacture commodities for sale to the retail stores, and to distribute to the retail societies the surplus over costs in proportion to the value of their purchases. When, in addition, the wholesale societies acquired estates in this and other countries for the supply of raw materials, the chain was complete, and within the range of the commodities concerned, profits were eliminated at all stages, and a new economic system in embryo was brought into being. The magnitude of the development which was thus initiated is indicated in the chapters which follow; its implications, however, remained hidden from the vast majority of those who were responsible for it. The outstanding exception to this latter statement was J. T. W. Mitchell, who was President of the Co-operative Wholesale Society from 1874 to 1895—perhaps the only prophet produced by the modern movement, and certainly the greatest. He it was who gave new meaning to the growing co-operative enterprise, who saw clearly that the profits of such enterprise, at whatever stage they arose, must return to the ultimate consumer if the ideal of direct production for use, in opposition to the system of production for private or sectional profit, was ever to be achieved. He had tremendous faith in the future of this new Conception of co-operation. If it was "loyally supported and indefinitely extended," it would "solve all social problems, destroy poverty, eradicate crime, and secure the greatest happiness to the greatest number."[1]

The main lines of the new movement became gradually clearer as producers' co-operation in its early form declined, and as the renewal of conflict, in the midst of economic depression, revealed the futility of the co-partnership principle as a universal means of reconciling opposing interests. After the early opposition had subsided, the wholesale societies entered wholeheartedly into the business of production, and became to an increasing extent the main directing influence.[2] Partly as a result of these new preoccupations, the

[1] Beatrice Webb: *My Apprenticeship*, pp. 368–9.
[2] See Table, *C.W.S. Productions*, Appendix I.

co-operative movement as a whole remained immersed in those practical problems which were created by the very success which marked its progress, even during the worst period of the depression in the eighties and nineties.

The setback in trade expansion during this period exerted a profound influence on other social movements and on social theories generally. Faith in the beneficent effects of unrestricted competition was shaken, and that powerful movement towards combination in the world of capitalist enterprise, which has made such great strides in our own day, was initiated. The reaction against *laisser-faire* led to more and more interference by the State in economic affairs, and the main lines of state economic action began to be more or less clearly defined. This was also a period during which the economic functions of municipalities began to take shape and the relations between the State and the municipality in this sphere began to be worked out. Meanwhile, the false sense of unity of interest which had characterized the previous period of prosperity was destroyed, and the modern Labour movement, based mainly upon the Trade Unions, began to acquire a separate identity and a new political consciousness. Trade Unionism itself took on a new character with the growth of organization among the unskilled, ill-paid sections of the wage-earners; and socialist ideas exerted an increasingly powerful influence.

§ 7. *Co-operation and Politics*

In the face of this new orientation of forces, the co-operative movement seems to have remained neutral and largely uninterested. The Co-operative Union had existed continuously since 1869, and the first Co-operative Congress of the modern series was held in the same year. By 1873, the constitution of the Union had taken shape, and its work was organized under sectional boards, then five in number.[1] The movement therefore had developed machinery for the formation of opinion, and the regular annual Congresses organized by the Central Board provided ample opportunity for the expression of political views. As we have seen, however, the wider interests of the earlier gatherings had largely disappeared by the seventies, and the co-operative movement of that day had become severely practical

[1] The Central Co-operative Board, as it was then called, was registered in 1889 as the Co-operative Union, Ltd., by which name it has since been known.

in its outlook. Whenever proposals came before Congress which involved political action or a closer alliance with the growing forces of Labour, they were always defeated by large majorities. There is no suggestion during this period of any clear-cut co-operative doctrine in relation to the future organization of society; indeed, over and over again, Co-operation is defined simply as a method of trading, open to all whatever their social or political views, unwilling to concern itself with ulterior aims or purposes.[1]

Apart from the absence of any clear sense of direction, the reason for the political neutrality of the movement is not far to seek. There was the memory of past failure and the consciousness of present success. The failure was associated with a Utopian political philosophy, and the success with the acceptance of more orthodox views and more limited aims. The leaders were unwilling to jeopardize that success in new political adventures. Moreover, there was no fundamental solidarity within the movement itself. One section of the Co-operative Union, embracing the wholesale and the retail societies, represented a potential alternative to private enterprise and the system of private profit; at least one section, the agricultural co-operators, regarded Co-operation as a means of increasing the profits of private enterprise; and another section, representing the co-partnership movement, stood for a compromise with the system of private profit by means of profit-sharing. A movement so constituted was in a weak position when it came to a definition of purposes; and without such definition, the scope for common action is severely limited.

In spite of these difficulties, however, political consciousness within the movement was increasing during the years before the War. The establishment of the first Parliamentary Committee of the Co-operative Union in 1880 is evidence that the movement recognized the importance of watching legislation and endeavouring to protect co-operative interests in Parliament.[2] This activity was not, however, inconsistent with political neutrality. The real issues were, first, whether the movement should endeavour to secure direct representation in Parliament, and secondly, whether it should act in concert with the Labour Party.

[1] The limited aims of consumers' co-operation are clearly stated in the *Co-operative Wholesale Societies' Annual*, 1902, page 337. Quoted also in *Industrial Co-operation*, ed. Catherine Webb, page 124.

[2] For composition of the Joint Parliamentary Committee see Chapter 12, page 207.

The issue of direct intervention in politics was first raised at the Perth Congress in 1897, by William Maxwell, in his Presidential address. A resolution was passed to the effect that the time had arrived for the direct representation of co-operators in Parliament, and the question of the means to be adopted to this end was remitted to the Co-operative Union and the two Wholesales. The Central Board was, however, itself opposed to this policy, and the matter was quietly shelved. The question of direct representation was again raised at the Paisley Congress in 1905, when a proposal that the co-operative movement should take steps to secure the election of a representative in Parliament was defeated by an overwhelming majority. The proposal was renewed at subsequent Congresses, coupled, to an increasing extent, with the demand for an alliance with the Labour Party; but it gained little support before the War.

The conflicting views are clearly expressed in the following resolution submitted to the Aberdeen Congress in 1913, and in the amendment which it evoked:

> That this Congress endorses the effort now being made by the Co-operative Union and other bodies to secure a closer union between the forces of organized labour and the co-operative movement, believing that it is only by combined and persistent effort in this direction that advantages gained by organization and sacrifice can be permanently secured to the members and the future interests of the wage-earner adequately safeguarded.

The amendment proposed to omit the words after "Congress" and to substitute the following:

> Whilst approving the concerted action with trade unions and other organized bodies for raising the status of labour, cannot sanction union with the Political Labour Party; and that the Central Board be instructed strictly to maintain the neutrality of the movement in respect of party politics, so that political dissension in our ranks may be avoided.

Even at that late date the amendment was carried by 1,346 to 580.

It is not necessary to trace in detail the steps which led to the reversal of the policy of political neutrality and to the formation of a close alliance with the Labour Party. It is significant that this again came about, not as a result of any clear appreciation of the ultimate aims of Co-operation, but rather as a measure of self-defence against the unfair treatment meted out to the co-operative movement during the War.

At the Swansea Congress in 1917 it was decided by a large majority that the movement should "secure direct representation in Parliament as the only way of effectively voicing its demands and safeguarding its interests." In the following year, a Co-operative Parliamentary Representative Committee of the Union was set up by resolution of the Liverpool Congress, and shortly after, this developed as the nucleus of the Co-operative Party, which was established in 1920. Opinion was still sharply but more evenly divided, among active co-operators, on the question of an alliance with the Labour Party. It was not until 1927, three years after the formation of the first Labour Cabinet, which contained one Minister drawn from the Co-operative Party, that a modest and not very satisfactory working arrangement was carried by 1,960 votes to 1,843. The whole manner of this excursion into politics is evidence of the confusion of aims to which reference has already been made. It was not the original intention of the movement, when it entered politics, to found a new political party. The 1917 resolution aimed only at securing co-operative representation in Parliament.

This is not the place to embark upon a detailed examination of the programme of the Co-operative Party; but it is not surprising to find, after the foregoing survey, that while it was based on the assumption that "Co-operation is a theory of society and, therefore, a legitimate basis for a political party,"[1] there was, in fact, little in the original programme or in the later publications of the Party that was distinctively co-operative in character.

The failure to find itself politically was the inevitable consequence of a failure to define the aims of Co-operation. The co-operative movement found itself confronted by vested interests—largely "producer" interests—on every hand. The opposition became stronger as the movement grew in material strength and as the economic situation became more difficult. Many of the advantages which it had enjoyed in the late nineteenth century were lost during the War and post-War periods; and free competition, upon which it depended for expansion, was progressively restricted. In the circumstances, the need for political action was felt to be urgent; but the basis for effective independent political action was lacking. On the other hand, although there seemed to be, in view of the large common membership, identity of interest with the forces of organized labour, there was also a certain conflict of

[1] T. W. Allen, at the National Emergency Conference in 1917.

interest, and a fundamental difference of viewpoint which made any firm alliance with the Labour Party, based largely on the Trade Union movement, difficult.

§ 8. *Co-operation and Labour*

The relation of Co-operation to the working-class movement generally was complicated by the fact that the co-operative movement itself became a great employer of labour. This issue is linked to the earlier controversy concerning the form of co-operative production; and it had to be made clear before there could be any real conception of the modern co-operative system or any clarification of aims.

The employees of the earlier co-operative stores were hardly conscious of their position as wage earners. They felt themselves to be part of the community which they served. The position became very different with the rapid increase in the number of workers employed in production by the wholesale societies, and with the later increase in the size of retail societies and in the number of their employees. The growth in the number of employees is indicated in the following table:

	1913	1931
Retail Societies		
Engaged in distribution	76,863	125,790
Production and services	24,969	61,843
Wholesale Societies		
Engaged in distribution	5,601	10,292
Production and services	24,078	41,625

Under the influence of the Christian Socialists, attempts were made to introduce the principle of profit-sharing with employees into the retail and wholesale societies. The Scottish Wholesale Society from its inception in 1870 until 1922 paid a bonus on wages, differentiating at first between "productive" and "distributive" workers. The English Wholesale Society was persuaded in 1873 to introduce a somewhat similar scheme of bonus on wages, but this was abandoned in 1875. Although it was reintroduced, for the drapery and furnishing departments only, from 1882 to 1886, the whole idea of profit-sharing was finally rejected in 1891. The survival of the bonus on wages practice in some of the older retail societies is unimportant in principle. In fact, the emphasis throughout the movement has, in

the modern phase of Co-operation, been shifted to the consumer, and the principle of distributing the surplus in proportion to purchases, from the wholesale to the retail societies, and from the latter to the consumer, has come to be firmly established in practice.

The co-operative movement is, however, itself a working-class movement, and it has always taken the lead in improving the conditions of labour. It was the co-operative store which first introduced the weekly half holiday. Minimum wages for male labour and a scale for women workers were fixed by the C.W.S. before the War. Trade Union membership was made compulsory on all C.W.S. employees in 1919, and many retail societies either anticipated or followed this lead. It may be said that wages in general have been higher and conditions of labour better in the co-operative movement than in comparable occupations outside. In this way, the co-operative movement has helped to raise general standards, especially in the distributive trades.

But the co-operative movement has also, on numerous occasions, demonstrated its solidarity with the working-class movement as a whole. During the Irish Transport Strike of 1913, on the guarantee of the Parliamentary Committee of the Trades Union Congress, the C.W.S. within three days delivered in Dublin a ship-load of food assembled and packed to meet the needs of about 25,000 families affected by the dispute, and continued to send similar supplies during the next four months. Similarly, immediate business arrangements were made by the C.W.S. during the great labour disputes of 1919, 1921, and 1926, to enable unions banking with the Society to have cash available at once for strike pay on a great scale. In 1921 and 1926 extensive credit was granted by co-operative societies to members affected by the national coal disputes.

Yet, from the side of the trade unions, conflict seems sometimes to have been more in evidence than identity of interest, and little distinction has hitherto been made by them between co-operative societies and capitalist employers. Disputes leading to the withdrawal of labour have been fairly common. In 1918, some thousands of C.W.S. workers were withdrawn on the question of craft versus industrial unionism. In 1923, the National Union of Distributive and Allied Workers withdrew the workers from two C.W.S. factories in the course of a wages dispute, and subsequently brought out 4,000 C.W.S. employees in sympathy. A dispute in March 1924 led to the closing of most of

the co-operative stores in Lancashire. Apart from the merits of the cases, it is impossible to overlook the anomaly of the situation. The cleavage of interest between the trade union movement and the co-operative movement was finally illustrated by the national strike of 1926. Co-operative employees were affected as trade unionists, and because of its high degree of trade union effectiveness, the movement actually suffered more than many private enterprises. At the same time, both the C.W.S. and the local societies were being asked for help, in the form of credits and in other ways, by the trade unions.

Evidence of this conflict of interest has emerged also in the relations, in certain societies, between employee members and the membership as a whole. The problem of "workers' control" lurks in the background. Co-operation is based on a fundamentally different principle, that of "consumers' control". The recent history of the movement suggests that this issue will have to be made clearer if Co-operation is to find its true place within the working-class movement as a whole.

§ 9. *The Immediate Background*

The descriptive chapters which follow will give a better picture of the remarkable progress made by Co-operation in Great Britain since the close of the last century than any historical survey which could be made here. But some idea of the rate of growth of the retail societies may be obtained from the following table:

Year	*Number of Societies*	*Members*	*Ten Year Increase*
1901	1,455	1,789,358	600,115
1911	1,381	2,626,016	836,658
1921	1,300	4,501,458	1,875,442
1931	1,159	6,531,834	2,030,376

The increase in membership both during and after the War is a striking tribute to the service rendered by the movement during the most difficult period in our national history. Hardly less significant is the fact that this increase in membership was accompanied by a decrease in the number of societies—evidence of a closing of the ranks and greater concentration of resources to meet the changed conditions of the present day. This tendency is most clearly illustrated in London, where thirty-three societies in 1913 were reduced to

fourteen in 1931, while the membership grew from 133,770 to 843,963 in the same period. Of this total London membership in 1931, 780,000 belonged to three great societies. In 1913, the average membership per society in the United Kingdom was 2,075; in 1931, it was 5,546.

Total sales by the retail societies have also increased greatly during the present century, as the following table shows:[1]

Year	*Total Sales* £	*Average per Member* £
1901	52,761,171	29·43
1911	74,812,469	28·33
1921	218,780,384	48·10
1931	207,888,385	31·55

The increase in retail trading was reflected in a new burst of activity on the part of the wholesale societies. The C.W.S. acquired new warehouses, factories, mills, a colliery, dairies, farms, woods, tanneries, seed-trial grounds, a vinegar brewery, fish-curing and distributing stations, lands for building and extensions, buildings and building land in West Africa, Denmark and Spain, and (with the Scottish C.W.S.) tea estates in India and Ceylon. A similar, although of course less extensive, development of productive enterprise was taking place at the same time in connection with the Scottish Co-operative Wholesale Society. The growth in the capital and combined trade of the two wholesale societies is indicated in the table which follows:[2]

Year	*Total Capital* £	*Total Sales* £
1901	5,345,162	23,342,825
1911	10,606,931	35,744,069
1921	31,641,632	103,982,840[3]
1931	88,829,227	98,635,584

The very rapidity of this growth has brought to the movement fresh problems for solution, the examination of which must be postponed to later chapters. But the nature of the problems—the haphazard way in which expansion has taken place, the gaps which have been

[1] Allowance must, of course, be made for changes in the general level of prices during this period.

[2] For the growth in productive activity of the C.W.S., see Appendix I.

[3] A year of inflated prices. Adjusted to 1931 prices the amount would be £54,944,260.

left, the absence of any logical plan of development, whether in relation to the future form of the co-operative movement or to the transformation of economic society as a whole—is closely connected with the failure to work out a new philosophy of Co-operation after the older Owenite ideal had been abandoned. In contrast to the spectacular success of the movement in the sphere of trade, its influence in the realm of ideas has, in modern times, been negligible. The educational tradition of the earlier movement has, it is true, been continued down to the present day; but there has been no growth in the amount and quality of this work commensurate with the growth in its trading activities. Co-operative education offered a means of consolidating the membership and making it an effective force in the State; but the effort has lagged far behind the need.

This does not mean that the movement is lacking in practical idealism. It stands for high standards of service in the widest sense. It has striven to make democratic control a reality at all stages, although not always with success. It has preserved the ideal of straight dealing and honest quality in the goods supplied from an age when those things were rarer than they are to-day. Over and over again, it has fought the battle of the consumer against profiteering private dealers. In its relations with a large number of employees, it has set a high standard of social conduct and has influenced private practice and national policy in the direction of higher standards of remuneration, reasonable hours of labour and the recognition of the principle of collective bargaining. In the limited sphere of practical thrift, it has brought added comfort and stability to tens of thousands of homes, and this in itself is no mean achievement. It has provided opportunities for the education of its members in those qualities which are essential to the success of democratic institutions. The question now is, whether it is possible to create out of all this a conscious movement with a deeper and wider understanding of ultimate aims and a common will to achieve them.

PART II

THE STRUCTURE OF THE CO-OPERATIVE MOVEMENT

Chapter 2

THE COMMON FRAMEWORK

From the point of view of economic organization, trading undertakings of all kinds may be divided into three classes: the capitalistically controlled, the employee controlled and the consumer controlled. The control of undertakings of the first kind is in the hands of persons who need not be either producers or consumers of the goods manufactured or handled, or of the services rendered; control may be exercised by a small group of persons, in some cases by a single shareholder, or by a large number of persons each owning a few shares. It is not with undertakings controlled in this fashion that we are concerned in this study. Undertakings of the second kind, now relatively few in number, are controlled by the employees, who appoint a board of management to represent them. But it may happen, and, as we shall see later, it has happened, that undertakings of this type accept financial help either from persons who are not employees or from undertakings of the third type; under these circumstances they become in part or in whole either capitalistically or consumer controlled.

To the third class of undertaking belong in the first place the trading concerns operated by central and local government authorities; for in these cases control is in the hands of the consumers. But membership, if we can speak of membership in connection with these concerns, is obligatory on residents in certain areas. There are, in the second place, other concerns, also controlled by consumers, membership of which is voluntary. The outstanding example of this type is provided by the trading units of the consumers' co-operative movement. It should be noticed that the aim of the movement is to provide goods for final consumption—especially such goods as are sold in ordinary retail shops. This characteristic of the consumers' co-operative movement distinguishes it from certain agricultural societies. The latter are also trading concerns controlled by the "consumers" of the goods provided; but in this case the goods are *producers'* goods, such as feeding stuffs for stock and agricultural machinery. Thus, while these agricultural societies are consumer controlled undertakings of the voluntary type, and therefore to be placed constitutionally in the same category as the units of the consumers' co-operative movement, they form a

separate class. There are also, as is well known, agricultural societies the objects of which are to provide for the members, not producers' requisites, but facilities for processing and marketing agricultural produce. Strictly speaking neither type of agricultural society is consumer controlled in the ordinary sense;[1] for the consumers of the agricultural products have no place in them. It may indeed be said that in both types it is the producer interest which is predominant; for their objects are similar to those of the numerous trading organizations of industrial firms which aim at the reduction of costs and at organized marketing.

Though we have distinguished three types of trading undertakings, there are only two ways by which they can be legally incorporated and thus carry on their business. The first is under the Companies Acts and the second under the Industrial and Provident Societies Acts. The first method is suited to capitalistically controlled undertakings and is almost exclusively used by them. The second method is employed by the remaining types of voluntary undertakings. Attention must now be drawn to the fact that any undertaking incorporated under the Industrial and Provident Societies Acts is often called co-operative. The consequence is that under the head of co-operative societies are often included, not only consumer controlled undertakings, but also employee controlled societies and ventures founded as employee controlled but now in whole or in part either capitalistically or consumer controlled, as well as agricultural societies in which the producer is stronger than the consumer interest. This popular use of the word co-operative has always been and remains a prolific cause of confusion. In this book we are concerned, not with Co-operation in the large and ill-defined sense, but with the consumers' co-operative movement. We refer to employee controlled undertakings only in so far as they have fallen wholly or partly under the consumers' co-operative movement; and agricultural societies are mentioned only in so far as they have come into organic connection with that movement. It only remains to add, before describing the provisions of the Industrial and Provident Societies Acts, that two main types of trading units can be distinguished within the consumers' co-operative movement, which has been defined as consisting of voluntary organizations under the

[1] There are certain agricultural societies which, side by side with their predominantly "producer" activities, also carry on the work of an ordinary consumers' co-operative society.

control of consumers aiming at the production, wholesaling and distribution of consumption goods. They are the local retail societies, engaged chiefly in retail distribution, and the federal societies, some engaged in the production and distribution of goods for purchase by the retail societies, and others engaged in the supply of goods and services directly to the members of their constituent societies.

The first Industrial and Provident Societies Act was passed in 1852 and was intended chiefly to facilitate the setting up of employee controlled societies. The then existing law relating to Friendly Societies also applied to societies set up under this Act, except in so far as it was expressly varied by the Act, so that the legal framework at this period can only be understood after a study of legislation relating to Friendly Societies. Since 1852 there has been much amending and consolidating legislation, and the provisions relating to Friendly Societies have been separated from those governing other societies. The position is now governed by the Industrial and Provident Societies Act of 1893 amended by the Acts of 1913 and 1928.

A society which is registered under this Act is an association of shareholding members, and it becomes a corporate body with perpetual succession and the right to sue and to be sued in its own name. The shareholding members have the benefit of limited liability. The relations of the members to a society are laid down in its rules, which correspond to the Articles of Association of a limited company. These rules must be lodged with the Registrar of Friendly Societies. A society must consist of at least seven members if these are individual persons, or at least two if they are registered societies, and may admit an unlimited number. It can accept share capital up to any total amount; no individual, however, can hold more than £200 in shares in any one society, and a society can by its own rules fix a maximum limit lower than £200. A society can also accept loan capital from members or non-members. There is no legal limit to the amount of loan capital which an individual may hold, but societies must in their rules fix a limit to the total amount of loan capital which the society may issue; this limit may be, from time to time, altered by amendment of the rule. Share capital may be either transferable or withdrawable. The right of issuing withdrawable shares is a facility peculiar to Industrial and Provident Societies. A fact which has proved of great importance is that, since 1867, it has been possible for one society

to be a member of another. The £200 limit on shareholding does not apply if the member is another registered society.

A registered society may undertake any legal trade or business which is specified in its rules, including, with certain restrictions, the business of banking. Societies may hold property, undertake any transactions in connection with land, enter into mortgage agreements and advance money on security of real and personal property. Societies must submit their accounts annually for audit to a public auditor. A balance sheet, return of receipts and expenditure and auditor's report must be forwarded annually to the Registrar of Friendly Societies. Every three years the society must also make a return of the holding of each person in the society, whether in shares or loans. The rules of societies must be obtainable on demand, and the balance sheet and auditor's report must be available at the registered office of the society.

The law does not define the voting rights of members or state how profits are to be distributed; these matters must be regulated by the rules of the society. In all retail societies votes are allocated on the basis of one vote per member. After allocations to reserves and the payment of a fixed interest on share capital, it is usual for the rest of the trading surplus to be distributed among members in proportion to their purchases. In some societies it is provided in the rules that, while a very small holding of share capital (perhaps 1*s*.) may give membership rights so far as obtaining dividend on purchases is concerned, a rather larger holding (perhaps £1) is required before voting rights are conferred. It is almost universal in the case of retail societies for share capital to be in the form of withdrawable shares; among federal and agricultural societies transferable share capital is more common.

The supreme body of a society, which alone can transact certain business (the allocation of profits, alteration of rules, etc.), is the general meeting of members. An ordinary general meeting must be held at least once a year to receive the report and balance sheet and to sanction the distribution of profits.

In retail societies ordinary general meetings are held about once a quarter. In addition, extraordinary general meetings may be summoned according to the rules. The business of the society is administered by a "Committee of Management" elected by the vote of the membership according to the procedure laid down in the rules. In a

few cases certain chief officials are appointed by the membership, but usually the committee appoints the permanent officials.

The trading structure of the co-operative movement in this country is represented diagrammatically in Fig. 1. This includes the consumers' movement itself and also such agricultural and "productive" societies as are constitutionally linked with it.[1] The basis consists of the local retail societies (R). These local societies cover practically the whole of Great Britain, either by the establishment of shops in the urban areas and rural villages, or by the use of travelling shops or delivery vans in those areas where co-operative shops do not exist. There are few parts of the country which are not now covered by co-operative services. Each society constitutes a local democratic association of consumers, who join together to supply themselves with the domestic goods and services they require. In the main these local societies limit their operations to retail distribution. Occasionally, one retail society will be a member of another, as shown in the chart at X. This arrangement is unusual, but has certain consequences that will be discussed later.[2]

These retail societies may be, and mostly are, themselves members of one of the two wholesale societies, the Co-operative Wholesale Society Limited, and the Scottish Co-operative Wholesale Society Limited. The relation of the retail society to the wholesale society is similar to that of the individual member to the retail society. The C.W.S. and the S.C.W.S. are themselves the sole members of two other societies, the English and Scottish Joint Co-operative Wholesale Society, and the Co-operative Insurance Society. The latter is not shown in the diagram. The two main wholesale societies perform services of wholesale merchanting, manufacture, transport, insurance, banking and a variety of other services. The E. & S. Joint C.W.S. performs the special services of tea and coffee blending, and cocoa and chocolate production.

Local federal societies (F) perform special localized services, and are controlled by groups of retail societies. These societies are most common in laundrywork, dairying and sometimes baking. In addition there are a few specialized national federal societies—notably the Co-operative Press Limited and the Co-operative Printing Society

[1] The relations between the consumers' co-operative movement and agricultural and productive societies are described in Chapters 10 and 11.

[2] See page 85.

THE TRADING STRUCTURE OF THE CONSUMERS' CO-OPERATIVE MOVEMENT

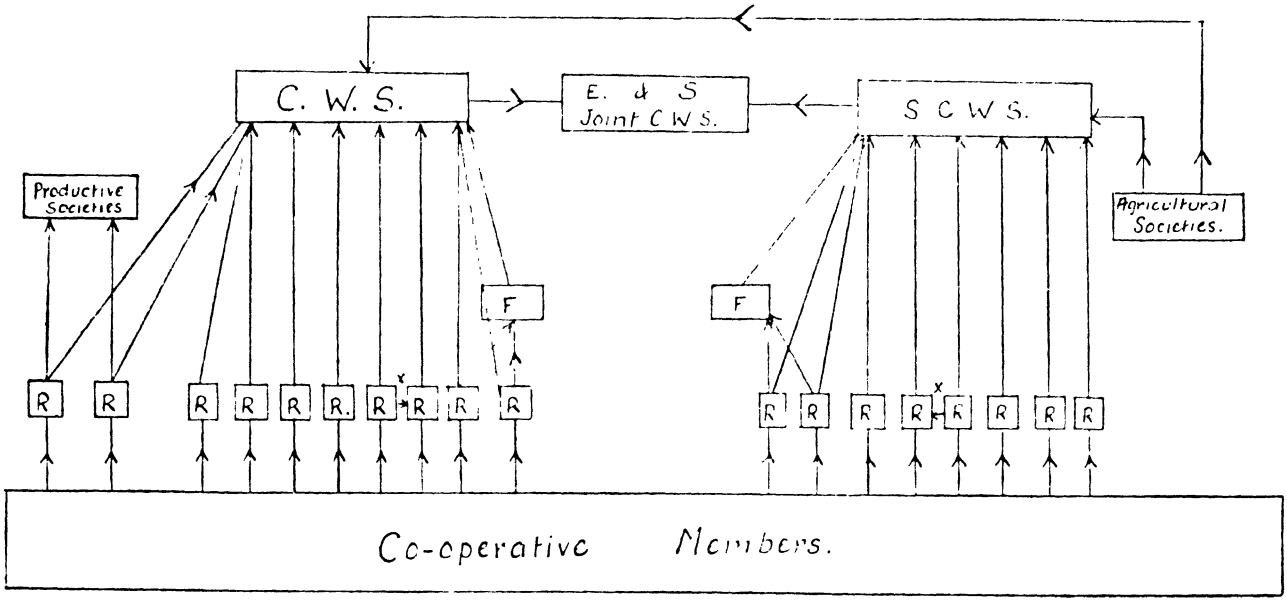


FIG. I

The arrows indicate the direction of membership.
The individual members belong to retail societies (R).
Retail societies are members of federal societies (F) and wholesale societies (C.W.S. and S.C.W.S.).
The productive societies have a tripartite membership consisting of retail societies, employees and individual shareholders; some are members of the wholesale societies.
The agricultural societies have farmer members, and many of these societies are members of the wholesale societies.

Limited. The Co-operative Union is also organized as a national federal society.

Owing to the fact that employee controlled undertakings are registered under the Industrial and Provident Societies Acts, they are accepted as part of the consumers' co-operative movement. This alone would not justify their inclusion in the diagram. Most of them sell their output to the consumers' co-operative movement; in addition units of the movement have invested capital in many of them, with the result that they have become wholly or partly consumer controlled. On this account they are shown in the diagram, where they appear as productive societies.[1]

Agricultural societies are associations of agriculturists for the purchase of requisites and the sale of produce. Most of them are members of their appropriate wholesale society from which they draw a part of their supplies. Retail societies are sometimes members of agricultural marketing societies, but this is not very common.

Insurance is in the hands of two organizations—the Co-operative Insurance Society Limited and the C.W.S. Health Insurance Section. The C.I.S. is a federal undertaking controlled jointly by the C.W.S. and the S.C.W.S. and is thus in the same position as the E. & S. Joint C.W.S. The constitution of the C.W.S. Health Insurance Section is determined by the provisions of the National Health Insurance Act of 1924. This Act lays it down that approved societies must not operate for profit and that their affairs must be under the control of their members. In consequence the C.W.S. Health Insurance Section is a constitutionally separate body, has separate accounts, and elects its own governing body. In fact, the governing body is the C.W.S. Board and business is transacted by C.W.S. officials and local societies.[2] This fictional separation of the Health Insurance Section is identical with the relation of joint stock insurance companies to their approved society sections.

The C.W.S. Bank undertakes banking services for the C.W.S. as a trading concern, for individuals, for co-operative societies, and for other organizations such as trade unions. It keeps its own accounts

[1] This term is borrowed from the phraseology employed in the statistics of the Co-operative Union. In these statistics, however, the term covers some federal societies as well as societies which, at least in origin, are employee controlled. In the diagram the term is used to cover the latter alone.

[2] See Chapter 8, page 181.

separately from those of the trading departments of the C.W.S., but is itself constitutionally part of that society and is controlled by the Finance Committee of the C.W.S. Board.

There is, finally, one example among co-operative organizations of a body registered under the Companies Acts. This is the Co-operative Dental Association Limited which provides dental treatment for the public. Company organization was required by the provisions of the Dentists Act of 1921, but the C.W.S. holds the greater part of the share capital and the Board consists of two C.W.S. directors and three dentists.

All these societies, whether consumers' societies or not, may be members of the Co-operative Union, and most, in fact, are. The Union is itself in legal form a co-operative society. It undertakes a variety of services for its member societies.

The consumers' co-operative movement thus consists of a loosely knit yet coherent group of organizations, linked to a certain extent by constitutional and financial ties, but to a greater extent governed in their relations and trading activities by conventions and a common purpose. It is possible, in fact, to think of the movement as a "consumers' trade association". While there are many differences between a capitalist and a consumers' association—not the least that a capitalist association aims at fixing minimum prices for its output, whereas the consumers' association, if it fixes prices at all, fixes maximum prices—they are similar in that each involves some conscious control and avoidance of overlapping. The conventions governing the movement are not contained in any written articles of association but have grown up spontaneously and sometimes unconsciously. Some of them have been formulated in general terms in the resolutions of the Co-operative Congress and the quarterly meetings of the wholesale societies; others are contained in thousands of bilateral agreements, and resolutions in general meetings, governing the relations of retail and federal societies.

Retail societies generally agree among themselves as to boundaries beyond which they are not to deliver, canvass or advertise. The federal societies—both national wholesales and local federal societies—do not undertake direct retail services, except with the consent of their member societies; they may not supply capitalist competitors of the retail societies, but do accept public contracts and undertake exports. The trading areas of the two national wholesale societies, the English

and the Scottish, are fixed by agreement, and goods of one society may only be sold in the area of the other through the agency of the latter. The British societies have tacit or explicit understanding with foreign consumers' societies as to markets.

The regulation of production is somewhat less clearly defined. Consumers' societies draw most of their supplies from within the movement; if they do buy outside, "trade union" firms are patronized first. If a co-operative society gives up production it will, in general, only do so for the benefit of another co-operative plant, not for a capitalist plant. There is a general agreement to increase the extent of financial interrelations within the movement. Almost all surplus funds go to the wholesale societies to be available for co-operative investment. Insurance for co-operative societies is undertaken by the Co-operative Insurance Society Limited. Production experience and secrets are freely shared; responsible officials of co-operative plants may inspect other plants, obtain information about costs and any other particulars required; information about capitalist and other outside competitors is pooled. There is a tacit agreement to provide mutual assistance in the case of financial or trading difficulties; the C.W.S. has supervised and supported several retail and agricultural societies whose financial position appeared somewhat unsound; in consequence, it is very rare at the present time for members to lose their savings as the result of the failure of a co-operative society. If any part of the movement wants to alter policies and principles hitherto generally adhered to, it will consult other parties concerned. Disputes between societies are normally settled by arbitration within the movement, usually organized by the Co-operative Union.

These conventions are observed throughout the movement with a considerable degree of loyalty. It seems that co-operative organization favours agreement, mutual assistance and avoidance of competition, in marked contrast with capitalist organization.

A distinctive feature of co-operative enterprise is the extent to which financial and trading information about societies is made public. The quarterly or half-yearly reports of a retail society are not merely the formal returns usual in the case of company reports, but normally contain a detailed analysis of departmental and branch sales.[1] In the same way, the wholesale societies supply to their member societies a detailed account of their financial and trading

[1] Reference may be made to the report and balance sheet of any local society.

position. Societies also make regular returns to the Registrar of Friendly Societies and to the Co-operative Union.[1]

It will be seen that the consumers' co-operative movement consists of a series of societies with common features but exhibiting a great variety of form and function. The next nine chapters describe in turn the various existing types of society, and the last four chapters in this Part give an account of the various non-trading organizations associated with the co-operative movement.

[1] See "Co-operative Statistics," published as an appendix to the annual report of the Co-operative Congress, and also obtainable as a separate booklet from the Co-operative Union, Holyoake House, Hanover Street, Manchester 4.

Chapter 3

STRUCTURE OF THE RETAIL SOCIETIES

§ 1. *Size and Membership*

The roots of the co-operative movement are in the retail societies. The societies are autonomous, each being free within the confines of the law to determine its internal organization, range of services offered and area of operation.

In 1935 there were 1,096 retail societies in Great Britain. There were 783 societies in England, 224 in Scotland, and 89 in Wales. They ranged from the "one shop" village society in rural or mining areas to very large societies with numerous shops centred in the main cities of the land. These societies are the lineal descendants of the original "Rochdale" shop; but in the process of evolution the very success of the movement has created problems far removed from those which the pioneers had to face. There has been a great increase in size and in the volume of business, and co-operative societies have entered most lines of retail trade. A large society has to build an administrative organization adequate to control a retail trade of more than a million pounds a year, and even a medium-sized society will be providing a greater variety of services than any single capitalist retail firm. Co-operation has spread so that co-operative services are available in practically all parts of the country, but the range and standard of services vary considerably.

Societies are now finding it necessary to adopt a more vigorous sales promotion policy, partly as the result of new co-operative opportunities, partly because of the nature and variety of competition which is developing in the retail trades.

As shown in Fig. 2, there is a wide divergence in size of retail societies. There is, however, a steady trend in the direction of an increase in the average size of societies (Fig. 3) by increase of membership and by amalgamation and absorption of small societies. This is partly due to a realization of the economies of large-scale organization; but a more important cause is the fact that only a large organization can undertake the range of services now demanded from a co-operative society.

FIG. 2*

RETAIL DISTRIBUTIVE SOCIETIES IN GREAT BRITAIN, ARRANGED ACCORDING TO MEMBERSHIP, SHOWING DISTRIBUTION OF SALES (1935)

Size of Society (Number of Members)	Number of Societies in each Group		Total Membership of Societies in each Group		Sales			
	Numbers	Percentage of Total	Numbers (000)	Percentage of Total Membership	Total Sales in each Group (£000)	Percentage of Total	Average per Society (£000)	Average per Member (£)
500 and under	215	19·59	62	0·83	2,116	0·97	9·9	34·1
501–1,000	166	15·14	124	1·67	4,101	1·87	24·6	33·1
1,001–2,000	202	18·46	295	3·98	10,047	4·58	49·7	34·1
2,001–3,000	113	10·33	278	3·75	9,999	4·57	88·5	36·0
3,001–4,000	64	5·85	222	2·99	7,050	3·22	110·2	31·8
4,001–5,000	56	5·12	252	3·40	8,625	3·93	154·0	34·2
5,001–6,000	30	2·73	157	2·11	5,026	2·30	173·3	32·0
6,001–7,000	31	2·83	200	2·70	6,687	3·06	215·7	33·4
7,001–8,000	28	2·56	210	2·83	6,259	2·86	223·5	29·8
8,001–9,000	18	1·64	152	2·05	4,566	2·09	253·7	30·0
9,001–10,000	20	1·82	191	2·57	6,040	2·76	302·0	31·6
10,001–15,000	51	4·65	629	8·48	19,624	8·96	384·8	31·2
15,001–20,000	26	2·37	452	6·09	13,454	6·15	517·5	29·8
20,001–40,000	45	4·09	1,260	16·98	36,927	16·87	820·6	29·3
40,001–100,000	25	2·28	1,461	19·69	42,801	19·55	1,712·0	29·3
Over 100,000	6	0·54	1,475	19·88	35,596	16·26	5,932·7	24·1
Total	1,096	100·00	7,421	100·00	218,918	100·00	200·1	29·5

* For the sources of statistics used in this and subsequent tables, see Appendix II.

FIG. 3

TABLE SHOWING TREND OF MEMBERSHIP AND AVERAGE SIZE OF RETAIL CO-OPERATIVE SOCIETIES IN GREAT BRITAIN

Year	*Membership*	*Number of Societies*	*Average Membership of Societies*
1881	546,560	965	566
1890	960,186	1,228	781
1900	1,703,084	1,419	1,200
1905	2,146,242	1,429	1,501
1910	2,529,271	1,396	1,811
1915	3,240,685	1,337	2,423
1920	4,459,960	1,326	3,363
1925	4,865,094	1,255	3,877
1930	6,346,745	1,181	5,374
1933	6,856,159	1,124	6,099
1934	7,141,558	1,110	6,434
1935	7,422,718	1,096	6,772

§ 2. *Local Variations*

During the past century, co-operative enterprise, developing spontaneously, has brought into being a comprehensive system covering the whole country. The movement, while standing for local freedom, has been against competition. Overlapping and competition between societies does exist, but it is certainly the exception rather than the rule, and it is being gradually eliminated by local agreement and by the efforts of the Co-operative Union.

We may picture co-operative retailing as carried on by a series of independent societies, each providing various types of retail services in a particular locality. There is no specialization. An axiom of the movement is "one area—one society". The management committee of a society feels that its society should undertake all co-operative services in its area. In some areas two societies may overlap, but even in such cases both will give a somewhat similar range of services.

This marks a clear distinction between capitalist chain stores and co-operative societies. A chain store firm specializes on a fairly limited range of retail services (e.g. grocery goods) and operates over an area without clear boundaries; it will usually expand by increasing its area of operation. A co-operative society, on the other hand, is

FIG. 4

TABLE SHOWING COMPARATIVE CO-OPERATIVE MEMBERSHIP AND TRADE ON A REGIONAL BASIS (1931)

Regional Areas	Co-operative Membership	Population	Number of Societies	Average Size of Societies (Membership)	Total Trade	Trade per Head of Population	Trade per Member
					£	£ s.	£ s.
London	784,833	4,396,821	8	98,104	20,270,458	4 12	25 17
Kent	105,799	1,218,565	18	5,878	3,205,481	2 13	30 6
Surrey	35,129	1,180,810	6	5,855	1,018,670	0 17	29 00
Middlesex	32,946	1,638,521	4	8,237	1,019,391	0 12	30 19
Total	958,707	8,434,717	36	26,631	25,514,000	3 1	26 12
Yorkshire	885,410	4,389,465	168	5,270	26,244,933	6 0	29 13
Northumberland	162,849	756,723	39	4,176	5,335,395	7 1	32 15
Durham	317,254	1,485,978	50	6,345	9,653,459	6 10	30 9
Total	1,365,513	6,632,166	257	5,313	41,233,787	6 4	30 4
Leicester	108,507	541,794	30	3,617	3,604,061	6 13	33 4
Northants	111,058	361,273	31	3,583	3,075,392	8 10	27 14
Total	219,565	903,067	61	3,599	6,679,453	7 8	30 8

Norfolk	45,221	504,846	9	5,025	976,444	1 19	21 12
Suffolk	55,872	401,114	11	5,079	1,787,078	4 9	32 0
Cambridge	27,639	217,709	6	4,606	779,190	3 12	28 4
Lincoln	76,177	624,553	8	9,522	2,301,525	3 14	30 4
Total	204,909	1,748,222	34	6,027	5,844,237	3 7	28 10
Brecknock	1,115	57,771	3	372	26,485	0 9	23 15
Radnor	331	21,314	1	331	4,179	0 4	12 13
Carnarvon	8,646	120,810	13	665	252,002	2 2	29 3
Denbigh	18,406	157,645	5	3,681	572,174	3 13	31 2
Total	28,498	357,540	22	1,295	854,840	2 8	30 0
Ayr	51,662	285,182	24	2,153	2,534,291	8 18	49 1
Lanark	196,456	1,585,968	55	3,572	8,612,547	5 9	43 17
Renfrew	55,543	288,575	20	2,777	2,617,147	9 1	47 2
Edinburgh (Midlothian)	120,182	526,277	9	13,554	6,278,850	11 19	52 5
Total	423,843	2,686,002	108	3,924	20,042,835	7 9	47 6
Caithness	1,436	25,656	2	718	34,839	1 7	24 5
Inverness	4,605	82,082	2	2,303	167,920	2 1	36 9
Total	6,041	107,738	4	1,510	202,759	1 18	33 11
England	5,608,061	37,789,738	829	6,765	164,741,440	4 7	29 8
Wales	158,471	2,158,193	91	1,741	5,392,890	2 10	34 1
Scotland	759,962	4,842,554	236	3,220	35,916,134	7 8	47 5

brought into being by a specific population group to supply such services as its members determine. It will normally have boundary agreements with adjacent societies, and will expand by increasing its range of services and the intensity of trade within its area.

In the country as a whole marked variation of co-operative intensity is noticeable as is clearly shown in Fig. 4. It is strongest in the industrial areas of England and Scotland. Recently there has been a marked development of co-operative enterprise in London, but the area is not yet saturated. The agricultural areas are still further from saturation. Wales as a whole is weak co-operatively, both in its industrial and in its agricultural areas. Some of the worst "co-operative deserts" are in the rural parts of Wales and the Welsh Border country.

An accurate classification of societies is difficult, but there are certain main structural varieties:

(*a*) The smallest are the "one shop" rural village societies. These are really the ordinary "village all-sorts shop", run on a co-operative basis under a committee. About 250 seems to be a common membership for this type of society.

(*b*) "One shop" societies also occur in the industrial areas, usually with a rather larger membership. These are to be found singly in isolated industrial villages, or in groups in industrial areas (e.g. North Leicestershire, the County of Durham, some of the industrial parts of Scotland). Both the rural and industrial village societies sometimes develop into small two or three shop societies.

(*c*) A straggling industrial[1] area may instead be served by one society with many branches. Such a society may deal with the area as such, without any clearly marked centre (e.g. Dudley and Halesowen Societies in the Black Country, Oakengates in Shropshire).

(*d*) Alternatively it may happen that a society centred in a large town will cater for a neighbouring industrial aggregation. A particularly good example of this is the Barnsley Society with its very complete chain of branches throughout that part of the Yorkshire coalfield.

(*e*) Many societies are situated in clearly marked shopping centres, usually market towns, and cater for large surrounding areas by grocery branches and delivery services. This is the

[1] The type of area known by economic geographers as a con-urbation.

usual form in the rural areas. Examples are the Rugby and Worcester Societies (*see* Fig. 6).

(*f*) As a development of the latter there are the very large societies in the great centres of population (Birmingham, Leeds, Liverpool). These provide a variety of services throughout the city and suburbs and are equipped with a central emporium and numerous branches. They do not normally extend far into the rural areas.[1]

(*g*) In the large cities suburban societies are also found operating in a section of the city. Sometimes there will be a boundary agreement between the suburban society and the central society (e.g. Birmingham and the Ten Acres and Stirchley Societies). Sometimes there is definite overlapping (Coventry and Lockhurst Lane). In certain centres, notably Manchester and Glasgow, a situation has developed in which there are a number of suburban societies, but none that can really be called a main society.

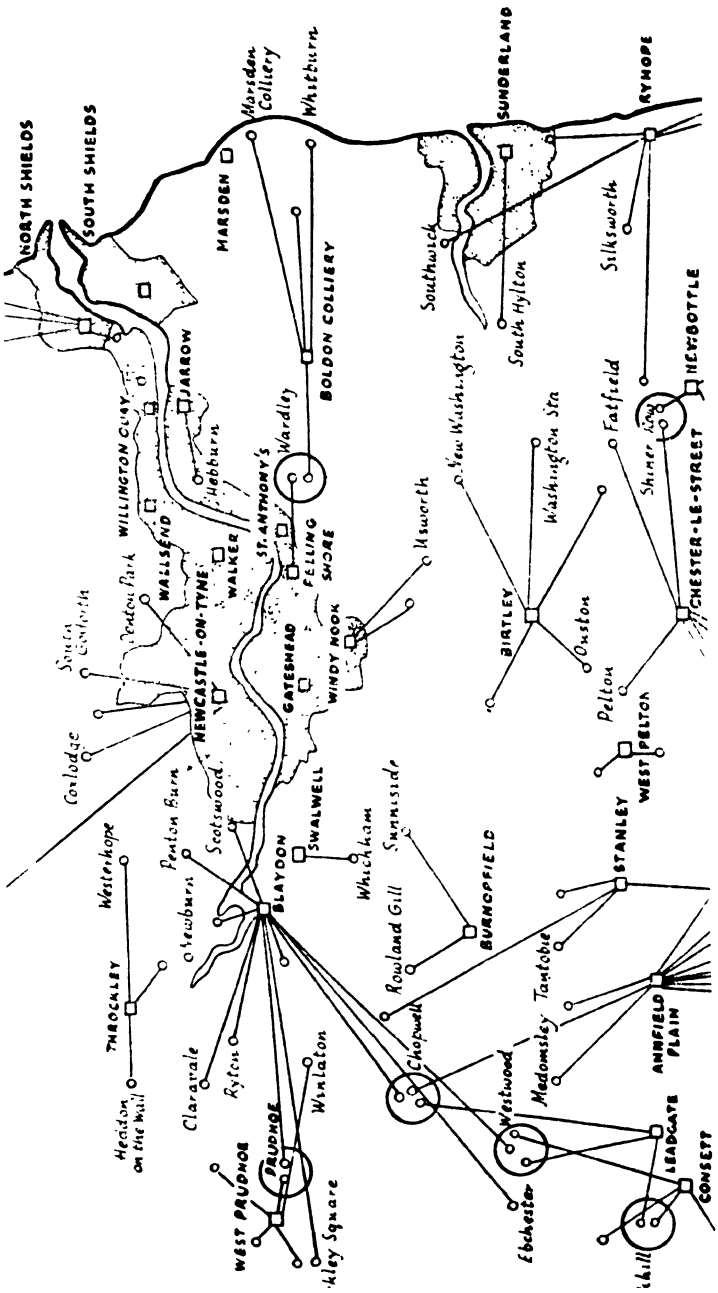
(*h*) Finally there are, in the South of England, the "regional societies". The distinctive feature of these societies is that they cover a wide stretch of country and include centres of population which are in no sense subordinate to the town in which the head office is situated. They do not necessarily serve a larger area than some of the "market town" societies (*e*). But, whereas the normal market town society caters for an area the whole of which is centred, either for civic and shopping purposes, on the market town, a regional society serves an area having no such natural unity.

Travelling from the north to the south of England, we observe a marked increase in the average size of area served by societies, culminating in the regional and market town societies of the south. In those areas in which Co-operation first made progress, chiefly in the industrial north, it developed spontaneously as the result of local enthusiasm in the towns and villages; as a result there are still many small societies and a considerable amount of overlapping. In districts in which progress has been more recent, co-operation has developed by an increase in the membership and extent of a smaller number of established societies; in consequence societies cover large areas and there is little overlapping.

[1] An exceptional development is the case of the Nottingham and Liverpool Societies which have taken over societies in Skegness and the Isle of Man respectively.

FIG. 5

RETAIL SOCIETIES AND BRANCHES, DURHAM AND TYNESIDE



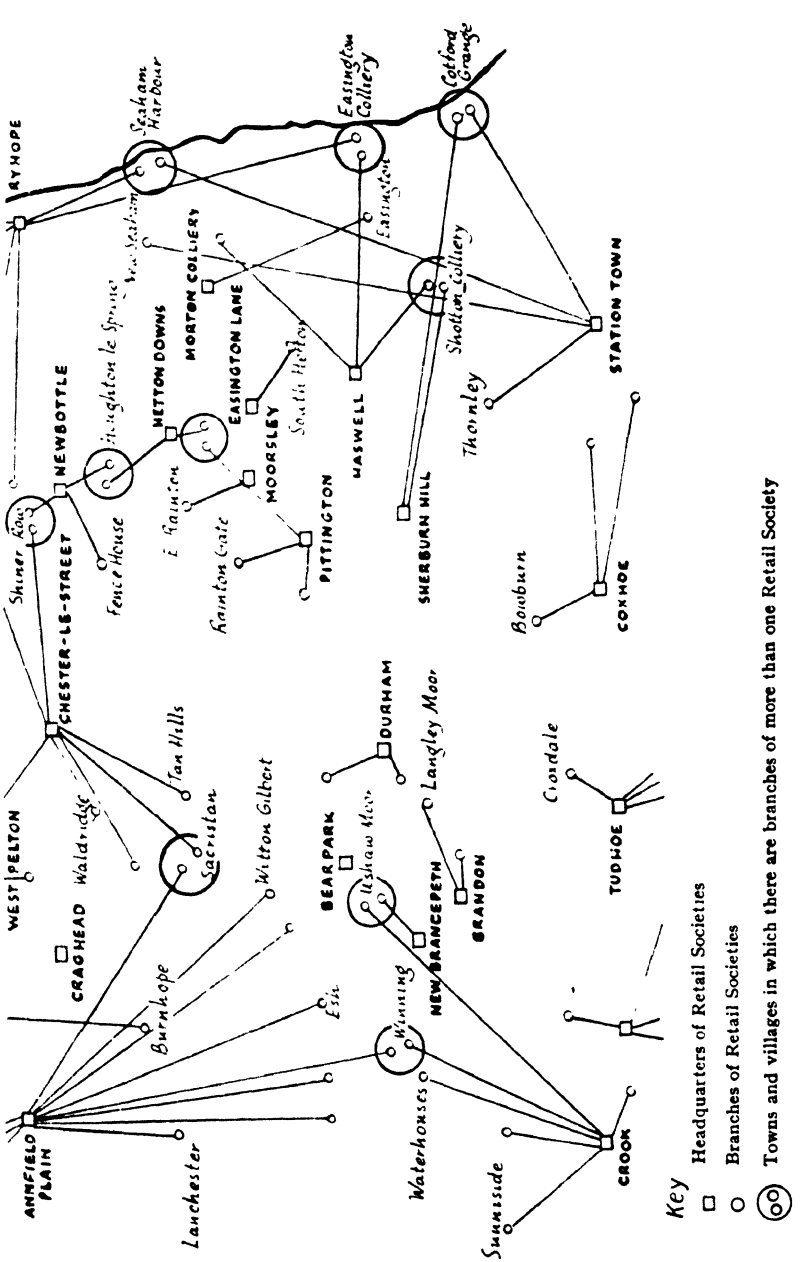
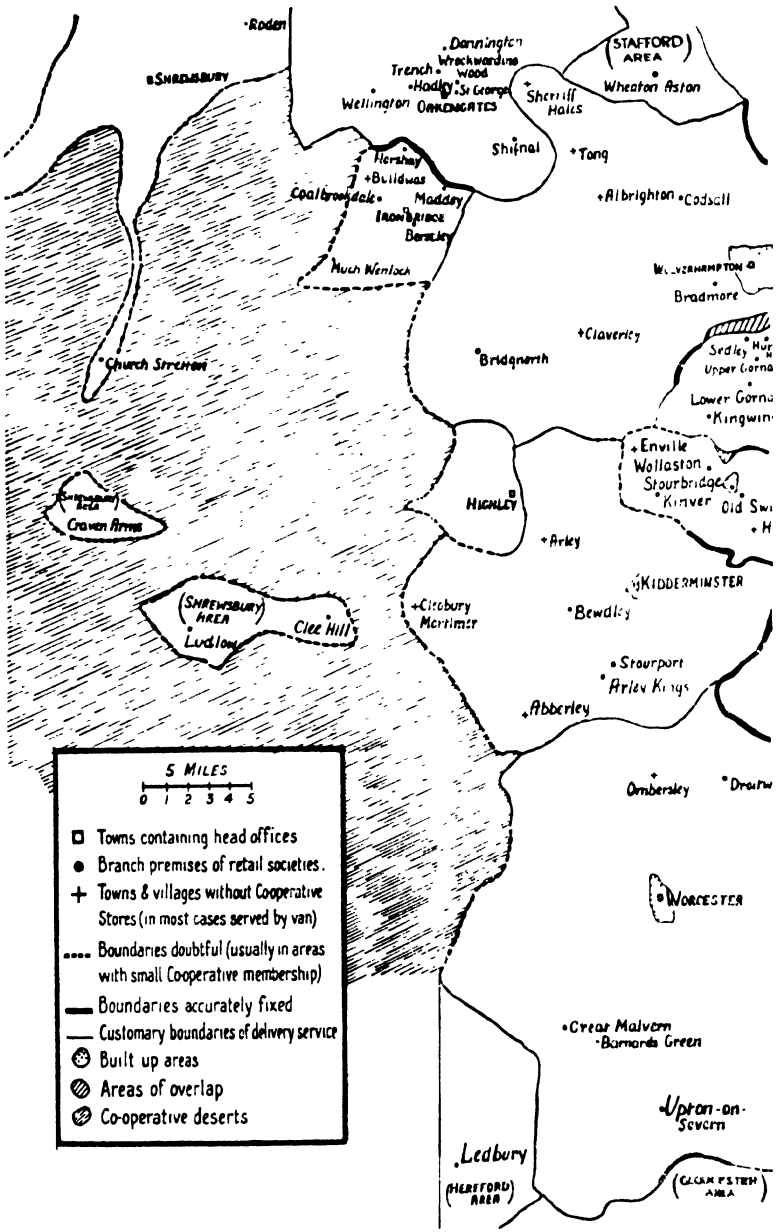

ANNFIELD PLAIN
WEST PELTON
CRAGHEAD
Waldridge
Burnhope
Lanchester
Esh
Witton Gilbert
Tan Hills
Sacriston
CHESTER-LE-STREET
Shiney Row
Fence House
NEWBOTTLE
Houghton le Spring
Newbottle
HETTON DOWNS
E. Rainton
Rainton Gate
EASINGTON LANE
MOORSLEY
South Hetton
PITTINGTON
MORTON COLLERY
HASWELL
Easington
Easington Colliery
Cotford Grange
SHERBURN HILL
Shotton Colliery
Thornley
STATION TOWN
Bowburn
COXHOE
RYHOPE
Seaham Harbour
BEARPARK
Ushaw Moor
DURHAM
Langley Moor
NEW BRANCEPETH
BRANDON
Winning
Waterhouses
Coxdale
TUDHOE
CROOK
Sunniside
Key
Headquarters of Retail Societies
Branches of Retail Societies
Towns and villages in which there are branches of more than one Retail Society

FIG. 6.—MAP SHOWING THE AREAS OF RETAIL



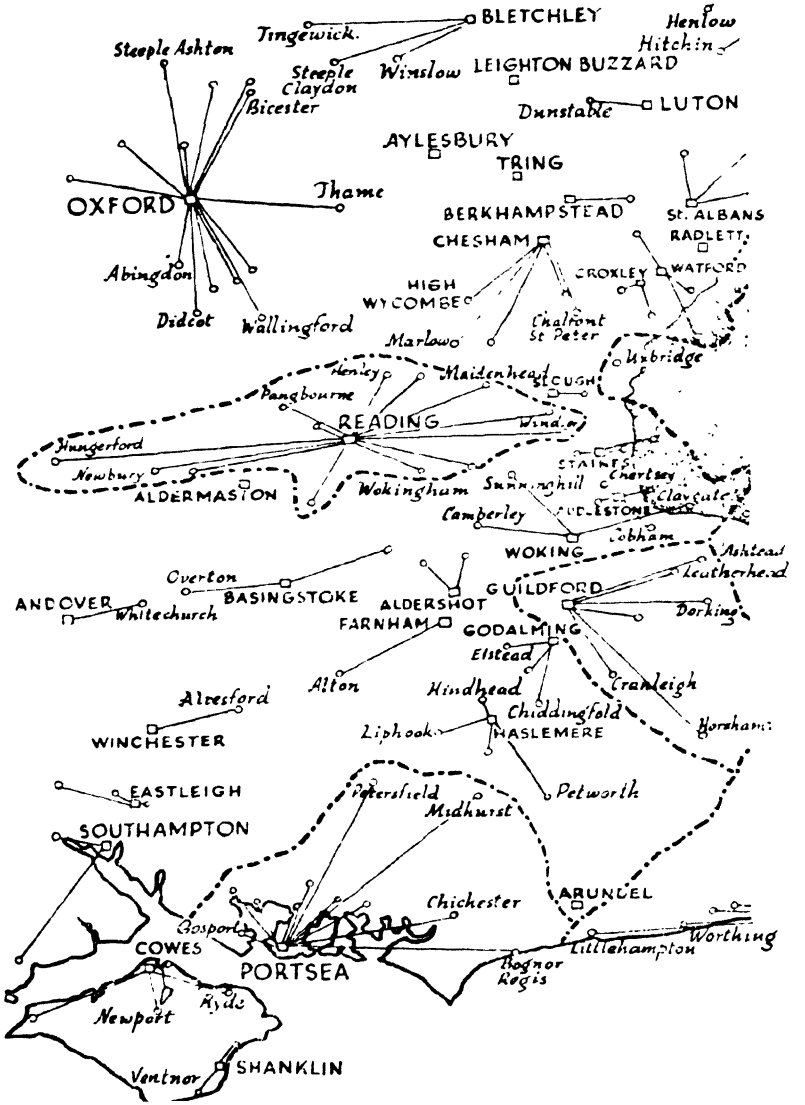
CO-OPERATIVE SOCIETIES IN THE MIDLANDS



FIG. 7

MAP SHOWING THE AREAS COVERED BY RETAIL SOCIETIES IN LONDON AND SOUTHERN ENGLAND

Towns containing head offices of retail societies shown thus: □ READING. Branch premises of retail societies shown thus: o *Newbury*. Branches are joined by straight lines to the head office of their society (except in the case of the three London societies). Approximate boundaries of the more extensive retail societies: —·—·—·—·—




SOHAM
Willing
Cottenham
Burwell
NEWMARKET
St.NEOTS
CAMBRIDGE
Fulbourne
SAWSTON
Linton
POTTON
HAVERHILL
Ashwell
Royston
SAFFRON WALDEN
Baldock
LETCHWORTH
Thaxted
BRAINTREE
Great Dunmow
Bishops Stortford
Welwyn
Hertford
Ware
Hatfield
WITHAM
Harlow
CHELMSFORD
MALDON
Cheshunt
Waltham Abbey
Epping
Chipping Ongar
Ingatestone
ENFIELD
Burnham
Broxbourne
Loughton
Brentwood
Billericay
Rochford
LONDON SOCIETY
Gidea Pk
Laindon
Rayleigh
STRATFORD
Southend
Shoeburyness
GRAYS
Canvey I.
Erith
Cliffe
SHEERNESS
ROYAL ARSENAL
DARTFORD
Eastchurch
GRAVESEND
CROYDON
ROCHESTER
GILLINGHAM
RAINHAM
CHATHAM
Orpington
(SOUTH SUBURBAN)
SITTINGBOURNE
Epsom
FAVERSHAM
Sevenoaks
Merstham
Westerham
Oxted
MAIDSTONE
Reigate
Redhill
Godstone
TONBRIDGE
Horley
ASHFORD
TUNBRIDGE WELLS
East Grinstead
CRAWLEY
Cranbrook
Tenterden
Haywards Heath
Uckfield
Heathfield
Rye
Henfield
LEWES
BRIGHTON
Hailsham
Battle
HASTINGS
Newhaven
Eastbourne.

The three maps illustrate the variety of local conditions. Fig. 5 shows the mining area of East Durham, which is remarkable for a large number of the type (*b*) societies in the mining villages, each society being fairly small. There is a lack of clear-cut boundaries, and delivery services occasion even more overlapping than is evident from the positions of the branches. Fig. 6, which covers Warwickshire and Worcestershire, together with parts of Staffordshire, Shropshire and Leicestershire, shows the retail society structure which is more usual in the rural and newer industrial districts of England. The area of each society is fairly large, recognized boundaries exist, and there is little overlapping. Most districts are served by fairly large retail societies centred in the more important towns. There are also a few rural village societies (Long Itchington and Harbury), and a suburban society (Ten Acres and Stirchley) which extends into the rural areas. The thinly populated country to the west, stretching towards the Welsh border, is to a large extent a co-operative desert, but the neighbouring societies, especially the Shrewsbury society, are extending their activities in this direction.

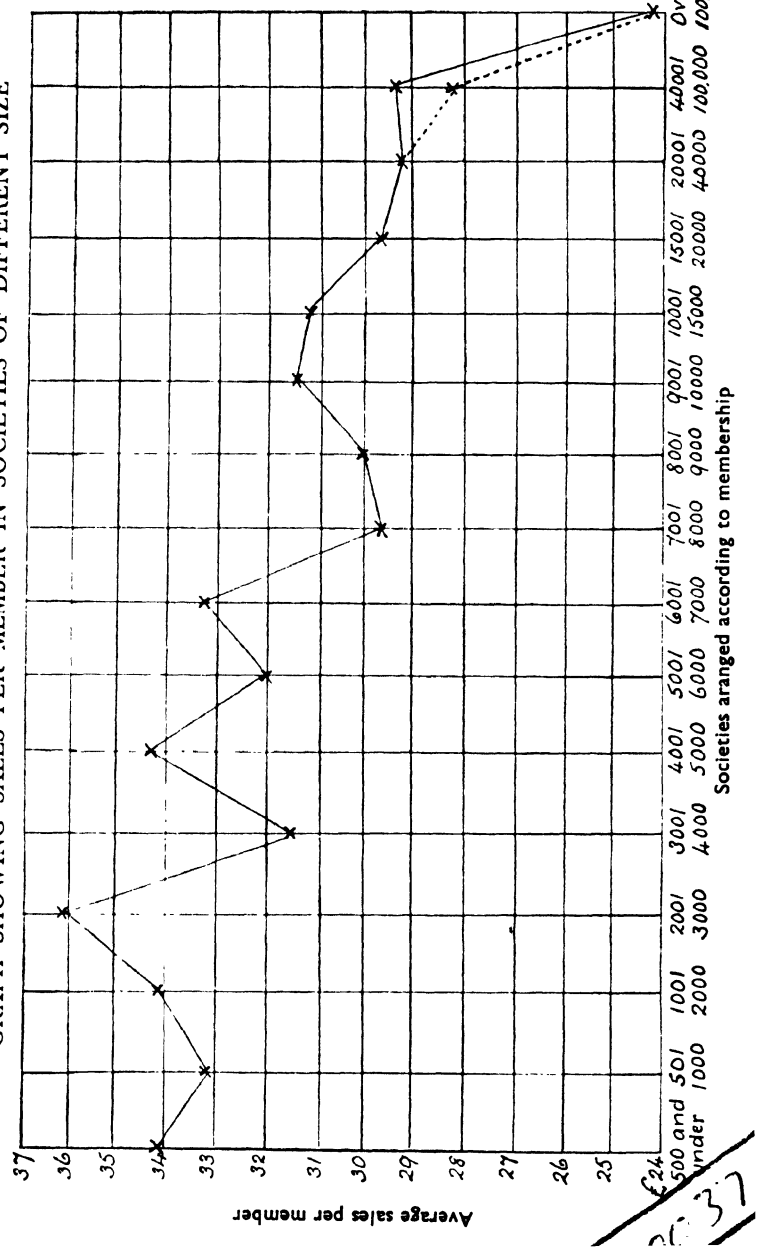
In the south (Fig. 7) much of the country is covered by "market town" societies as in Warwickshire. Some societies, however, have developed into regional societies of the type described above. Illustrative of this type of organization is the Brighton Society with branches in Eastbourne and East Grinstead. The Reading and the Portsea Island Societies might perhaps be considered to be examples of market town societies; but again they illustrate the tendency to serve an area much bigger than that closely associated with their central towns. In the interstices of the regional societies there are still a number of smaller societies, especially in the straggling residential districts west of London.

§ 3. *Comparative Sales*

In 1935 the total co-operative sales in Great Britain exceeded £218,000,000 for a membership of 7,422,718, making the average sales per member £29 9*s*. It seems probable that, if allowance is made for cases in which there are two or more co-operative members in one family, and those in which one person is a member of more than one society, nearly 6,000,000 families out of the 11,000,000 in the country are associated with co-operative societies. Assuming that the

FIG. 8

GRAPH SHOWING SALES PER MEMBER IN SOCIETIES OF DIFFERENT SIZE



average purchases per family of co-operative goods could amount to £65 a year, total co-operative purchases might have been as much as £360,000,000. The question of members' loyalty is thus an important one and is not unrelated to retail society structure. Fig. 2 gives average sales per member for societies in each membership group. This is represented graphically in Fig. 8. Although the curve is not regular, it shows a marked decline in sales per member as the size increases. The troughs and peaks result from the sales of a few outstanding societies. The difference between the straight line and the dotted line for the 40,000–100,000 group, arises from the elimination of one society, Edinburgh St. Cuthbert's, which has 80,000 members and unusually high average sales of £49 per annum. By leaving out St. Cuthbert's society the curve follows the dotted line. The graph seems to show that co-operative trade would be larger if societies were smaller in size. How far is this the case? In attempting to answer this question the following factors must be remembered:

(*a*) The large and small societies normally operate in different types of area. The society in a small town may be the main retailer and can look to members purchasing a large part of their supplies from it. In a large town competition from chain and departmental stores is keener, and convenience of purchasing will probably lead to members buying some commodities elsewhere.

(*b*) As mentioned in the discussion of regional societies, the areas without "spontaneous" co-operative loyalty developed later, progress in these areas having depended upon large societies covering a wide area rather than upon self-initiating village societies. To some extent, therefore, low co-operative loyalty is the cause, not the result, of the growth of larger societies.

(*c*) The ultimate test of effectiveness is sales per head of population rather than sales per member. A small society in a large town may originally have had an ardently co-operative membership, spending much of their income with the society. A vigorous development policy, new buildings, advertisement, a wider range of services will attract a large "fringe" of new members who are not convinced co-operators, but who will use the stores for the purchase of certain articles. Under these circum-

stances average sales per member will fall, but it cannot be said that the position is worse, for the loyalty of the earlier members is untouched.

Practically no societies have records showing the distribution of membership in their areas. Sales for each branch are usually obtainable, but it is only possible to use these figures to measure sales per head of population in those cases in which a branch caters for a well-defined population group. Important as they are, neither the percentage of population who are co-operators in a given area nor the co-operative sales per head of population are easily obtainable for small areas.

Fig. 9 gives sales per head of population for certain selected areas in the Midlands. The Tamworth Society is unusual in keeping records of sales and membership in all villages in its district, most of which are served by delivery vans. The figures show that percentage membership is higher in the town but sales per member are higher in the outlying areas. This result is to be expected, for those in the rural districts who are members will usually obtain a large part of their supplies from the society's vans. The Harbury and Long Itchington Societies are independent societies operating in rural villages in a similar district. The Shrewsbury Society is a market town society with branches in towns (for instance Ludlow) widely separated from its headquarters. It was not possible to obtain membership figures in this case, but sales per branch suggest a lower effectiveness compared with an independent society.

The Highley Society operates in a mining village, isolated within an agricultural district, and sales per head of population in the village itself are high. The Society operates delivery services over a radius of a few miles, and the co-operative loyalty of outlying members is high. But the percentage membership among the population in the agricultural villages is very low. It appears that trade outside Highley is almost confined to the few mineworkers resident in other villages and no progress has been made with the agricultural population.

The figures for Leicestershire have been grouped together, as there are, in this county, series of clearly marked villages. Most of them are served by independent village societies, but a few by branches of the Leicester Society. It is not possible to obtain the sales per member for each branch of the Leicester Society, but the sales per branch

FIG. 9

CO-OPERATIVE SALES PER HEAD OF POPULATION IN SELECTED AREAS

Society	Area	Co-op. Retail Service Available	Details	Population	Co-op Membership	Sales (£ per year)	Membership as per cent of Population	Sales per Member (£ per year)	Sales per Head of Population (£ per year)
Tamworth	Tamworth Borough	C	Country town	7,509	2,901	56,986	38·5	19·6	7·57
Tamworth	Polesworth	B	Colliery village branch, 4 miles from Tamworth	6,466	1,435	43,600	22·2	30·44	6·76
Tamworth	Fazeley	D	Colliery village 1½ miles from Tamworth	2,886	463	11,100	16·1	24·00	3·85
Tamworth	Middleton	D	Rural village 4 miles from Tamworth	452	62	1,751	13·7	28·32	3·87
Tamworth	Thorpe Constantine	D	Rural parish 5 miles from Tamworth	60	23	523	38·3	22·76	8·76
Long Itchington	Parish	C	One-shop Rural Society	1,229	269	6,919	21·8	25·5	5·51
Harbury	Neighbouring Parishes	C	Two-shop Rural Society	3,244	677	21,137	20·8	31·0	6·56
Shrewsbury	Craven Arms	B	Rural Branch	2,699	—	7,838	—	—	2·90
Shrewsbury	Ludlow	B	Branch in rural town (Absorbed Society)	6,861	—	6,784	—	—	0·98
Shrewsbury	Clee Hill	B	Branch in quarry village (Absorbed Society)	1,986	—	7,602	—	—	3·83
Highley	Highley Village	C	One-shop Society in mining village	2,095	443	178,470	20·2	40·4	8·55

Highley	Chelmarsh	D	Delivery from Highley	501	37	1,540	7·4	41·7	3·06
Highley	Kinlet	D	Delivery from Highley	457	14	504	3·1	38·5	1·18
Highley	Stottesdon	D	Delivery from Highley	948	4	132	0·42	33·0	0·13
Leicester	Syston	B	Main road village 4 miles from Leicester	4,600	—	14,320	—	—	3·12
Leicester	Sileby	B	Industrial village 7 miles from Leicester	3,598	—	14,863	—	—	4·13
Leicester	Thurmaston	B	Outer suburban village 3 miles from Leicester	3,723	—	8,802	—	—	2·37
Leicester	Countesthorpe	B	Rural village 6 miles from Leicester	1,921	—	5,563	—	—	2·90
Cosby	Village	C	One-shop Village Society	1,701	260	9,055	15·3	34·9	5·31
Sapcote	Village	C	One-shop Village Society	862	205	3,822	23·8	15·3	4·44
Broughton-Astley ..	Village	C	One-shop Village Society	1,440	269	6,876	18·7	25·8	4·83
Stoney Stanton	Village	C	One-shop Village Society	1,560	550	11,206	35·2	20·4	7·19
Croft	Village	C	Two-shop Village Society	1,018	293	12,457	27·8	42·5	12·22
Groby	Village	C	One-shop Village Society	1,122	216	5,946	19·3	27·5	5·89
Oadby	Village	C	Two-shop Village Society	4,724	933	25,388	19·4	27·2	5·38

Note.—C = Central premises of Society in area.
B = Served by Branch premises.
D = Served by delivery service.

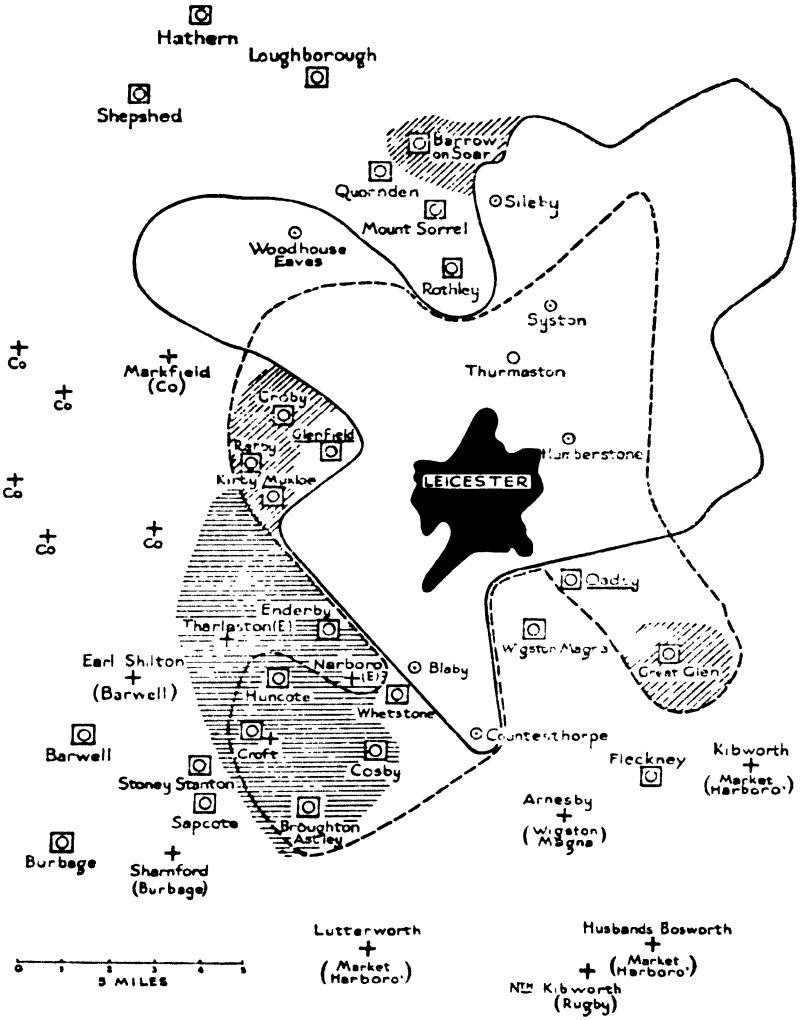
are fairly satisfactory for calculating sales per head of population. The high sales per member and sales per head of population in the case of the Croft Society are noteworthy.

These figures indicate that the highest sales per head of population are to be found in isolated population groups, especially if occupied in a single industry; for instance, the inhabitants of Croft are very largely employed in quarrying. An independent society is usually more effective than the branch of a larger society in catering for a self-contained population group. While an industrial village society may have very high sales per head among industrial workers, such societies are usually inferior to the larger town societies in pioneering among the agricultural population. As a general rule, the lowest sales per head of population occur in societies operating in towns not linked for shopping and civic purposes with the town in which the head office of the society is situated.

§ 4. *Boundaries, Shops and Delivery Services*

The area of operation of societies has been discussed at some length; it is worth asking what actually determines this area. In the case of a society pioneering into a co-operative desert the effective area is that in which there is a reasonable density of trading members. Co-operative policy, however, is to avoid overlapping, so that when two societies adjoin it is necessary to fix a boundary and to ensure its observance. The determination of boundaries is primarily the concern of the two societies involved. Sometimes there is a definite agreement; more frequently a customary boundary is observed, and in a minority of cases no boundary exists and there is overlapping. At the instance of the parties an arbitrating body—usually appointed by the Co-operative Union—may be set up to deal with a boundary dispute, but most of the agreed boundaries have been fixed between the societies concerned without recourse to arbitration. Boundary agreements, where they exist, may incorporate three mutually imposed restrictions upon societies' activities: they always govern the position of shops; they usually, but not invariably, include restriction on the delivery of goods and on the extent of bread and milk rounds; occasionally they restrict the area from which societies may accept members. The whole country can therefore be portioned out into a series of areas, each the territory of a particular society, although

FIG. 10.—MAP SHOWING THE SERVICES OF RETAIL CO-OPERATIVE SOCIETIES IN THE LEICESTER AREA.



LEICESTER SOCIETY

⊙ Branches

—— Boundary of Grocery delivery area.

– – – Boundary of Butchery delivery area

Districts outside grocery area in which Leicester Society provide milk rounds

Note (Milk is also supplied in bulk to the Glenfield & Oadby Societies (underlined) by Leicester)

OTHER SOCIETIES

▣ Main Premises

\+ Branches (The Society to which a branch belongs is indicated in brackets after the name. E=Enderby Co=Coalville)

Milk delivery is of Enderby Society

with some doubtful boundaries and a certain amount of overlapping. Fig. 10 shows the location of boundaries of a typical area.

Retailing is not a single service, and co-operative societies supply goods and services to their members in various ways. In competitive private enterprise it is safe to assume that most opportunities of doing trade will be seized; in consequence, it is possible to rely on a fairly full range of services being provided—although not necessarily efficiently—for everyone. In the co-operative movement competition has been reduced, and each society limits its activities within certain self-imposed boundaries. In each area so defined there is usually only one society operating. This fact has allowed of considerable economies; but if everyone is to have a full range of co-operative services, the disposition of retailing agencies must be related to the shopping habits of the population. How far is this the case?

The department store, selling a wide variety of goods including expensive articles and fashion goods, was to a considerable extent developed and popularized by the co-operative movement. Co-operative stores of this type are to be found in the main centres of population, and are used regularly by customers from the surrounding residential areas and, on Saturdays and market days, by rural dwellers from a wide area. A normal society, catering for a natural marketing group, will have one large store at its headquarters. Regional societies covering a large tract of country, including several natural shopping centres, may operate more than one emporium; although it must be added that societies of this type are apt to concentrate on shopping facilities at their headquarters, to the neglect of other natural centres in their district.

Frequently co-operative central stores are not placed where we should expect to find large capitalist retail stores. There are several reasons for this. The co-operative movement began among the working people, and co-operative department stores have developed in what were working-class shopping streets during the last century, now perhaps unlikely sites for a modern, well-equipped department store. Historical causes may also determine the town in which a central emporium is situated. Many societies, starting in a small industrial town, have extended their scope to cover a large stretch of agricultural country with its market town. Such an area, aided by modern transport, will use the market town to an increasing extent for shopping, but is not likely to shop to any extent at the original

headquarters of the society, although this may still be the site of the main emporium. In general there is a tendency for each society to have a main central store. This would be satisfactory if society areas corresponded to natural shopping districts; but in fact many societies operate over very arbitrary areas, with a consequent lack of correlation between the placing of co-operative department stores and the shopping habits of the population. The most important consideration is that the co-operative central stores should be easy of access to the whole area for which it caters. The fact that a society has a definite membership means that there is less need to choose a commanding site than in the case of a private trader. The consequent saving in cost is a genuine co-operative economy.

The great bulk of retail trade, both within and outside the co-operative movement, takes place not through these large stores, but through other types of shops and by means of delivery services. The shops can be divided roughly into semi-central and household commodity shops. Semi-central shops are those which supply goods which are in fairly frequent request—e.g. stationery, medicines, hardware, hairdressing, etc.—but for which the customer is prepared to go to the nearest shopping centre. In the category of household commodity shops come all those which the housewife expects to find "just round the corner"; the most important are those which supply groceries, provisions, butcher's meat, common medicines, and general household requisites. Delivery services are steadily growing in importance as a channel of retail trade. These are of various kinds: regular daily bread and milk rounds; "errand boy" delivery from branch shops; van delivery of heavy articles from the central stores; travelling shops carrying a stock of wares and touring the district for custom; regular van services delivering grocery parcels in response to a weekly order.

In residential areas almost all co-operative societies operate a fairly complete chain of grocery stores, and in most cases a more sparse chain of butchery, greengrocery and confectionery shops. At the main suburban shopping centres there will usually be a group of co-operative shops, either forming a small department store or a series of shops linked together. Such a group will comprise household commodity shops and semi-central shops, but the latter will not usually sell expensive or fashion goods. The practice in rural areas varies very much between different societies. In the smaller country

towns there will frequently be minor department stores. It is the modern practice to limit these to the sale of standardized articles, since customers are tending, as a result of improved transport, to buy expensive articles at the emporium in the market town where a wider range is available. Grocery distribution in rural areas is either by branches in the villages or by van delivery. In sparsely populated districts the latter is of increasing importance. There are many societies which cover a large stretch of country entirely by van services without any branch premises at all.[1] The use of travelling shops is increasing in both rural and suburban areas. In rural areas they are chiefly employed for butcher's meat and hardware; in suburban areas greengrocery, butcher's meat, fish and poultry are sold in this way.

There are two changes in shopping habits of recent years which are important. The first is the growth of a closer network of retailing services—small private shops, chain store branches, greatly increased delivery services and door-to-door hawking. The second is, at first sight, in contrast to this. Modern transport has resulted in a greatly increased shopping area for central shops selling more expensive goods. The modern growth of country buses, private cars and cheap rail travel has increased the importance of the larger market towns and led to a serious loss of business by stores in small towns or villages, especially in "dry goods" lines. This accounts for the fact that an adequate retail service can be maintained by a central store and a delivery service alone in some areas. A further development has been that of very cheap, long-distance rail excursions, as a result of which residents in medium-sized towns will often travel fifty miles or more to the large cities to do certain kinds of shopping.

The fact that societies operate within fixed boundaries has a distinct influence on the service offered. A society will not deliver outside its agreed area, and this means that a customer must depend upon the services of the society in whose area he resides for the supply of those goods which are normally delivered. He will only have an adequate service if the premises from which he has to order are easily reached and if the society gives a reasonably comprehensive range of services.

Boundary agreements, it must be recognized, constitute a restric-

[1] The Tamworth Society serves an area of seven miles radius with only one outlying branch. The Chipping Norton Society caters for a large and thinly populated tract in the Cotswolds by means of a well organized system of van service, and there are many other societies developing their trade on these lines.

tion on trade. This restriction is normally justifiable as involving less loss than would be occasioned by indiscriminate overlapping. It is important, however, that the position of boundaries should be determined not by considerations of prestige and self-sufficiency, but in such a way as to lead to the most efficient use of co-operative resources. There is indeed something to be said for a departure from the strict "one area, one society" structure. Some services, e.g. grocery retailing, can be undertaken efficiently by quite a small society. On the other hand, there are an increasing number of services which can only be operated by a relatively large society. As a result of this situation there have grown up in some districts working agreements between neighbouring societies. An interesting example of this is to be found in the Leicester area, illustrated in Fig. 10. The central and western part of Leicestershire is covered with small, separated villages whose inhabitants are engaged in quarrying, the shoe trade, hosiery and hat manufacture. The Leicester Society was founded in 1860. Between 1870 and 1900 Co-operation developed in the villages, not through the opening of branches, but by the founding of independent societies. Since that time there has been only one absorption of a small society; but most of the village societies have become members of the Leicester Society. Members of the former may use the Leicester Central stores for the purchase of dry goods, and the Leicester Society undertakes milk and butchery delivery in the areas of member societies not doing these lines of business. The Enderby Society also delivers milk in the areas of certain other societies. In all these cases arrangements are made for members to receive dividend from their own societies.

In this way there have developed in a few areas systems of mutual help and division of functions between neighbouring societies. This development has been more or less spontaneous, mainly as the result of a series of bilateral agreements. In the Leicester area the arrangement has existed largely unchanged since 1900. It would appear that the time is now ripe for a fuller examination of the whole question of inter-society working, with a view to its possible extension.[1]

[1] See Chapter 27, page 486

Chapter 4

GOVERNMENT OF THE RETAIL SOCIETIES

§ 1. *The Committee of Management*

Consumers' co-operation bears the mark of its spontaneous development in the variety of organization of government which it displays. The work of the Co-operative Union and the increasing contact between members and officials of different societies are helping societies to learn by each other's experience; but nothing like uniformity has resulted. Some of the variations are occasioned by factors in the local situation and represent real efforts at adjustment to environment; many are merely the results of historical accidents which have been preserved by local conservatism.

The anatomy of a typical retail society has already been outlined in Chapter 2.[1] The organ of higher control—variously described as the Board of Management, the Management Committee, or the General Committee—is elected by the membership to whom it is ultimately responsible. A great variety of means are adopted to achieve an effective degree of democracy, or, in other words, to make the management committee sensitive to the will of the general membership; but this aspect of the organization is considered fully later.[2] The management committee usually consists of laymen serving in their spare time. Nevertheless it does exert a fairly detailed control over the affairs of the society. The chief executive officers and departmental managers are immediately responsible to the committee and work in close relation with it. These officials are, almost invariably, appointed by the committee in the larger societies, although in a few cases certain of them may be elected by the membership.

Industry is coming more and more to be controlled by committees, whether called Boards of Directors or by some other name. Thus the distinction between the varieties of industrial organization lies in the nature and method of appointment of these controlling committees and the way in which they exercise control. Even the Post Office, formerly managed by a hierarchy of officials responsible in

[1] For a fuller description, see S. and B. Webb, *The Consumers' Co-operative Movement*, Chapter 1.

[2] See Chapter 16, page 257.

theory to the Postmaster-General, is now managed by a Board. The co-operative movement is in some ways in an exceptional position. It has had a longer and more continuous experience of committee control than any other form of industrial organization. Retail trading can be understood comparatively well by the non-expert. Hence a closer and more detailed control can be exercised in this sphere by a body of laymen than is possible in the case of more technical manufacturing activities.

The sizes of management committees of co-operative retail societies vary somewhat, but consist usually of about twelve members. Although this may seem rather large for the convenient transaction of business, it is difficult for the committee to be smaller, especially in those cases in which several trading sub-committees are required, since lack of time on the part of the voluntary members precludes anyone from serving on several sub-committees. In the case of societies in which there are no sub-committees a management committee of seven or eight is common.

The committee is elected by the whole membership of the society, its members retiring in rotation after a term of office of about two years. They are almost invariably re-eligible except that, in the case of some Scottish and a very few English societies, there is a limit to the consecutive periods a member may serve. There is normally a considerable continuity of tenure. In some societies it seems to be assumed that the only cause which can lead to a member leaving the committee is death. An obvious result of this is that the average age of committee members is distinctly high, members of eighty or more being not unknown. In the majority of retail societies there is no age limit for committee membership; in an increasing number of large societies, however, regulations are being introduced fixing a retiring age between sixty-five and seventy.

Committee members are drawn in the main from the skilled artisan class and especially from industries in which there is a high degree of Trade Union organization. Railway employees probably head the list; they have certainly taken a leading part in co-operative democracy throughout the country. In areas of localized industry (e.g. mining and textiles) the committee may consist almost entirely of workers in one trade; in general, however, a committee will contain members of a considerable variety of trades. Non-industrial workers whose employment brings them into touch with a large section of the

membership are also common—e.g. insurance agents and labour organizers—as well as unemployed and retired workers and married women. The committee is normally more definitely "working-class" in composition than the membership. Many societies now trade considerably with members of the middle and professional classes, but active participation in co-operative management is almost confined to working-class members. The only exception to this is in Wales, where there is a high proportion of schoolteachers among members of management committees.

A slow change in committee personnel appears to be in progress; the old type of pure co-operative enthusiast is becoming rarer, and his place is being taken by the man, drawn from the Trade Union movement, who is also active in public affairs and may be a city or town councillor or a magistrate.

The election of women to management committees is a comparatively recent development; in fact, towards the end of the last century, it was unusual for women to take part even in quarterly meetings. The work of the Women's Guild has changed the situation, and there are now women on the committees of about a third of the retail societies. These are chiefly the larger societies where it is common for two or three committee members to be women. Societies of less than 1,000 members, or those which have not active Women's Guilds, rarely have women committee members.

The qualifications and disqualifications for election to the committee are stated fully by the Webbs,[1] and there has been no marked change here. At the present time the eligibility of employees of the society for election to the committee is the chief question in dispute. This is not strictly a question of worker representation. There are indeed a few societies which have employee representatives—that is, members of the committee who are directly elected by the votes of the employees alone; but this arrangement is very rare and is not increasing. The main issue is not one of employee representation, but whether employees should be eligible for election to the management committee by the vote of the membership. There are four situations to be found in retail societies: (*a*) Societies in which employees are definitely excluded from the committee; (*b*) societies in which there is no rule on the subject (whether intentionally or accidentally) but in which, in fact, employees do not seek election

[1] Op cit., pp. 30–31.

or serve on the committee; (*c*) societies in which there is no rule and in which opportunity has been taken to elect employees. In a few such cases the majority of the committee may be employees;[1] (*d*) societies in which a limited number of employees (usually two) is allowed on the committee. In these cases the full number allowed is almost always elected.

Employees are still usually excluded in the case of societies with a membership of less than about 15,000, but there has been a definite move of recent years, especially in the larger societies, to allow a limited number to serve. If a change of rules is made it is almost always to adopt this latter arrangement. There are two normal methods of election in societies where this is the case. In the first, any number of employees may be nominated along with other candidates, and the committee is then elected by the vote of the membership in the ordinary way; no distinction is made in the case of employees except that not more than a limited number may be elected. According to the second method, the number of employees' *candidates* is limited; there is a prior election among the employees, and the candidates so chosen then stand for election among the other candidates. This latter method prevents a split in the employees' vote at the main election, and in consequence makes it more likely that employees will be elected up to the full permissible number. The employees elected are usually of the official or branch manager class rather than members of the rank and file. The continuity of office on the part of employee-members of the committee is, perhaps, more marked than in the case of other members.

Opinions on employee representation differ very widely. It is usually felt that the presence of a limited number of employees does not have any marked effect on the working of the committee. They are occasionally able to make a distinctive contribution as a result of their experience as employees, but in the main they take their part in a way which does not distinguish them from the rest of the committee. Some managers are of the opinion that the arrangement is of direct value to the society in promoting solidarity and in helping the employees to appreciate the problems of the management.

Adverse criticism is mainly on the ground of discipline. A permanent official may be in a difficult position when giving orders to a subordinate who is also a member of the committee which appoints him.

[1] Examples of this have occurred in the Eccles, Warrington and Coventry Societies.

Further, it is suggested that employees on the committee may reveal to their colleagues the gist of boardroom discussions; this form of abuse is more serious in cases where there is a powerful employees' vote at the general meeting, which may be used against the committee or its individual members. These complaints, however, are the exception and seem commoner in the North. In the Midlands and South the concensus of opinion among managers seems to be in favour of —or at least indifferent to—the presence of a limited number of employees on the committee, and this opinion seems to be shared by the membership. Amendments of rules to admit the election of (usually) two employees to the committee have been passed with an almost negligible number of dissenting votes in most of the societies where the change has been made.

It is important to distinguish the various ways in which employees may influence the administration of retail societies. One is through employee members on the management committee, but there are four others of importance: (i) Employees may, by virtue of their membership of the society, take part in the ordinary democratic activities and, in some societies, their vote is an important factor; (ii) the employees are members of a powerful Trade Union and the movement as a whole is very sensitive to Trade Union pressure; (iii) the permanent officials, whose influence on co-operative policy is steadily increasing, are themselves employees, usually promoted from the ranks and in close contact with the rest of the employees; (iv) in a few societies there have been "workers' councils" or "joint committees" with consultative powers; these have usually fallen into disuse and very few of them remain. Employees' influence through these various channels is discussed more fully in Chapter 19.

In the Royal Arsenal Society the Board consists of full-time directors, and in Barnsley British Society, out of a Board of nine, there are three full-time directors. Salaries in these cases are not high when compared with those of capitalist industry; but they usually allow the directors to live at a slightly higher standard than that to which they have been accustomed. With these exceptions, the control of retail societies is always in the hands of voluntary committee members, serving in their spare time. In some societies a small fixed honorarium is paid, usually about £20 a year; in others a small fee is paid for each meeting. Although major expenses, such as travelling on delegation work, are always allowed to the committee members,

there are usually certain minor personal expenses occasioned by serving on the committee, and, where an honorarium is paid, it does little more than cover these. Such pay as is given is insufficient to prove an attraction in itself. This lessens the temptation to seek election from purely self-regarding motives; it also obviates the danger of a man being put on the committee as a reward for past services rather than because of present ability.

§ 2. *Types of Governmental Organization*

Classifying societies according to the administrative plan and chain of responsibility, there are three main administrative types which are fairly accurately correlated with the sizes of societies. (1) The simplest type is the small village society of one or two shops. The normal form of administration (type 1)[1] is that involving a single manager (usually called the managing secretary) who performs the limited secretarial work required. His main work is running the shop, doing the buying, fixing prices and often serving in the shop as chief shopman with his assistants.

A form of this type which still remains in some small societies is that in which there is a part-time secretary, who is a member of the Board and is elected by the membership. The manager is an employee and is really only chief shopman. The secretary manages the committee work, registration of members, and sometimes even a small part of the buying; this he does in his spare time for a small salary. This arrangement means that management is entirely in lay hands, but it is undoubtedly obsolescent, the preference now being in favour of the full-time managing secretary. Its survival is, however, aided by unemployment and by the fact of short-time work in many industrial areas. There are always a few elderly but keen co-operators who have been forced into early retirement and who are glad to find occupation, even at a very small salary, in work of this sort.

(2) As lines other than grocery develop, the managing secretary will have under him a certain number of departmental managers who will act as chief buyers in non-grocery lines. There are not many societies of this type (type 2a, a sub-group of type 2).[2] As it is difficult for one man to undertake secretarial work, general management, and grocery buying, it is usual to separate the jobs of secretary and general

[1] The reference is to Fig. 11.

[2] See Fig. 11.

FIG. 11

SAMPLE OF SOCIETIES IN ORDER OF SIZE TO SHOW ORGANIZATIONAL TYPES

Society	Membership	Number of Branches		Organization				
		Town	Country	Executive Head	Departmental Managers	Type	Number of Members of Management Committee	Number of Sub-Committees
Birmingham	164,616	106	14	A	D	3	13	5
Leeds	109,495	94	38	A	D	3	13	3
Barnsley	88,030	20	85	A	D	3	9	16
Leicester	60,466	62	6	A	D	3	13	4
Walsall	40,545	17	36	A	D	3	14	6
Coventry	38,358	35	8	A	D	3	11	4
Ten Acres & Stirchley ..	33,647	20	6	A	D	3	13	5
Burton-on-Trent	21,481	15	10	A	D	3	10	3
Kettering	20,550	26	9	A	D	3	12	—
Worcester	18,532	10	10	A	D	3	13	4
Nuneaton	16,401	11	7	A	D	3	15	4
Dudley	15,356	7	15	B	G	2	12	7
Wolverhampton	13,735	10	8	B	G	2	10	2
Coalville	13,266	3	15	B	G	2	11	3
Rugby	12,554	11	14	A	D	3	12	9
Tamworth	9,301	1	1	A	D	3	12	5
Kidderminster	8,572	10	5	B	G	2	11	5
Lockhurst Lane	8,280	10	—	B	G	2	7	0

Stafford	7,834	11	3	B	G	2	9	0
Halesowen & H.	7,172	6	9	B	G	2	12	0 0
Hinckley	6,521	12	—	A	G	2a	11	2
Shrewsbury	6,432	7	4	B	G	2	9	3
Oakengates	5,600	3	12	B	G	2x	12	3
Enderby	2,088	4	2	A	G	2a	9	—
Ironbridge	1,395	3	5	A	G	2a	9	0
Atherstone	1,195	1	—	A	G	2a	6	0 0
Mountsorrel	800	2	—	A	G	2a	8	—
Harbury	712	1	1	A	N	1	8	0
Highley	557	1	—	Bx	N	1x	10	0 0
Fleckney	500	2	—	A	N	1	9	—
Ratby	306	1	—	Bx	N	1x	9	—
Croft	293	2	—	A	N	1	—	—
Broughton Astley	287	1	—	Bx	N	1x	6	—
Long Itchington	266	1	—	A	N	1	7	0
Cosby	258	1	—	Bx	N	1x	14	—
Kirby Muxloe	252	1	—	Bx	N	1x	9	—

Explanation:—

A = One managing secretary.
B = Equal secretary and manager.
Bx = General manager and part-time secretary.
D = Departmental managers for all departments.
G = Departmental managers for all departments, except grocery; general manager acts as buyer for grocery.
N = No departmental managers.
— = Information not recorded.

manager. The resulting type (type 2) presents a very common method of organization for medium-sized societies. At the head are the secretary and general manager, who are of equal status. The secretary does the very considerable secretarial work occasioned by the meetings of the committees. He controls the accounting department and the office, which includes the fairly elaborate office organization required to record members, shareholdings and purchases. The manager controls the whole of the trading side. This involves control of staffing, shop equipment and general supervision of trading activities. Details of buying and pricing in non-grocery lines are left to the departmental managers. The general manager, however, is still chief buyer for groceries and perhaps for certain other lines where there are not departmental managers. This means that he has also to control the grocery department at headquarters and other grocery premises which probably form most of the branches of the society.

(3) In the third type (type 3)[1], found in the large societies, there is only one executive head, usually called managing secretary. Grocery buying is performed by a grocery manager who is in the same position as any other departmental manager, and all departmental managers are responsible to the general secretary. Much of the work performed in type 2 by the secretary is now performed by a secretarial department and an accountant's department. Hence the secretary is able to act much more as a general administrator. The working of a society of this type is described subsequently.[2]

An analysis of societies in the Midlands is given in Fig. 11. It will be seen that societies of more than 10,000 members are commonly of type 3. Types I and IX are practically confined to the small rural "village shop" society of a few hundred members. Figs. 12 and 13 indicate diagramatically the usual organization of "type 2" and "type 3" societies.

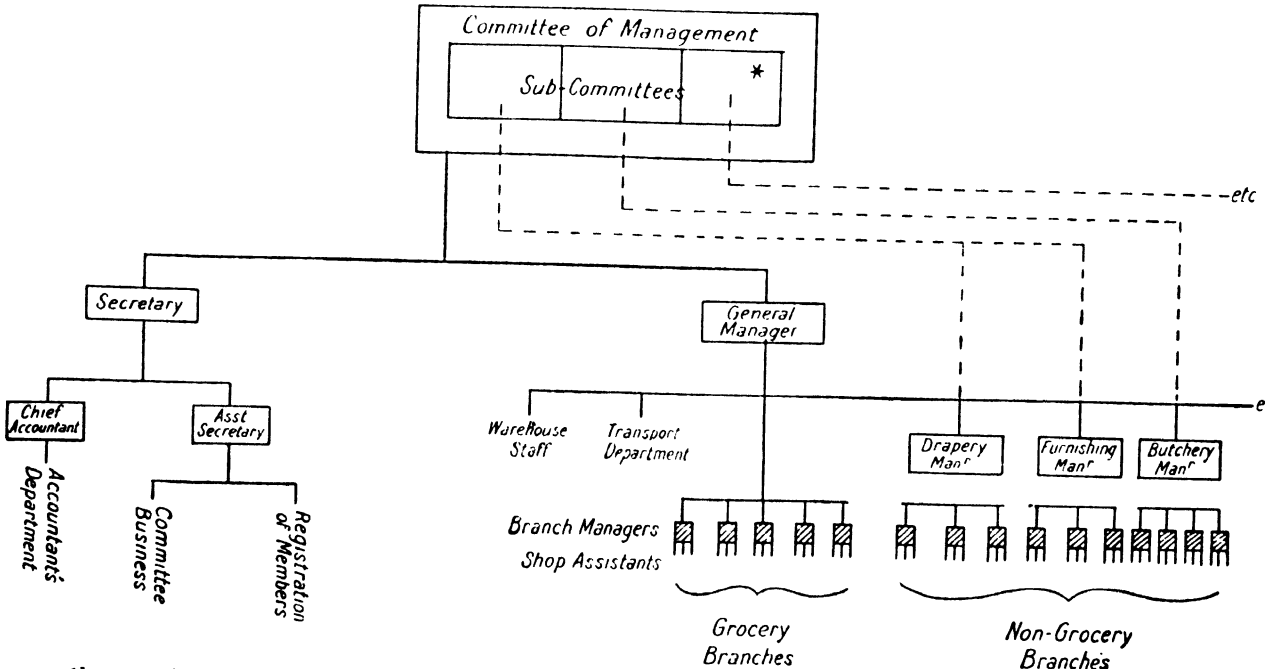
The London societies and the large regional societies of the south depart somewhat from the forms of government usual in large societies. The two most important distinctions are the existence of dual control and the retention of the secretary, constitutionally elected by the membership. Whereas in the Midlands dual control by secretary and manager is rarely found in societies of more than 15,000 members, both the London and South Suburban Societies (575,000 and 125,000 members respectively) adopt this "type 2" form of government. The

[1] See Fig. 11.

[2] See page 98.

FIG. 12

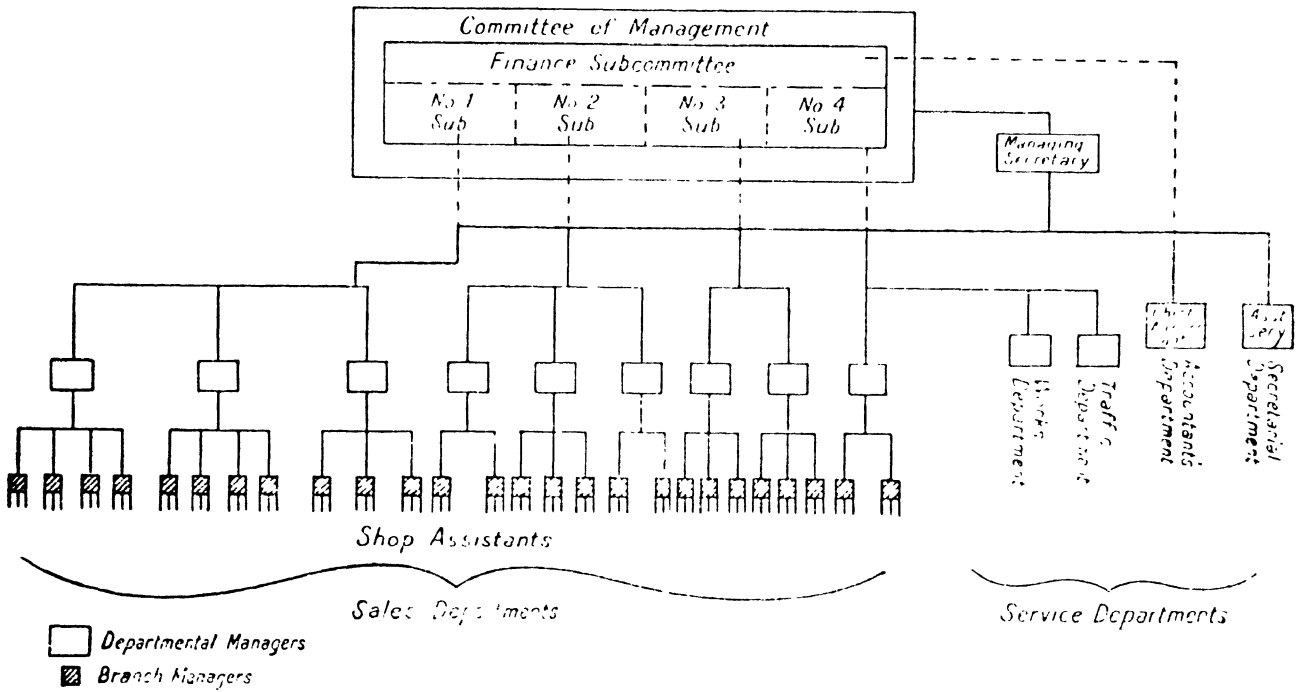
DIAGRAM OF ADMINISTRATION AND MANAGEMENT IN A "TYPE 2" SOCIETY



*In some societies of this type, the sub-committees are not responsible for specific departments but for certain functions (e.g. buildings and trade).

FIG. 13

DIAGRAM OF ADMINISTRATION AND MANAGEMENT IN A "TYPE 3" SOCIETY



The priority of the chain responsibility ——— (via the managing secretary) and - - - - (via the sub-committees) differs as between different societies.

South Suburban Society follows the usual practice of "type 2" societies, in making the general manager responsible for grocery buying and departmental managers for non-grocery departments; but in the London Society there is a separate grocery manager. In the Midlands it is almost universal for the secretary to be appointed by the management committee; the only exceptions are a few small village societies where the election of the secretary (who may be a part-time official) is a matter of routine business at the general meeting. It is, therefore, surprising to find the secretary in some of the large regional societies of the South elected by vote of the membership. In some cases the secretary has to be re-elected annually; in others his appointment is permanent and he can only be removed by a resolution passed at the general meeting. A contested election, however, is very unusual, and the candidate proposed by the committee is usually automatically elected. The main effect of this method of appointment is that it greatly strengthens the position of the secretary in relation to his committee.

Another important point of organization is the presence or absence of regular trading sub-committees. Small societies with very little dry goods trade do not usually have regular trading sub-committees, but in all the larger societies they are the rule.[1] The actual methods of organization, however, vary considerably.

(*a*) The simplest form is that in which there are two main sub-committees. There may be a building sub-committee and a trade sub-committee. The former is concerned with inspecting buildings and equipment, examining proposals for capital extension and submitting them to the management committee. The latter examines branch and trading returns and generally supervises trading methods.

(*b*) In the case of societies with several active trading departments, and with the head offices situated in a fairly large town, a number of *ad hoc* sub-committees are often set up, each sub-committee being responsible for a department, or for one or two allied departments (e.g. sub-committees for grocery; fish, fruit and poultry; butchery; café; buildings and equipment; drapery and tailoring, etc.). An extreme example is that of the Barnsley Society which has no less than sixteen sub-committees of three members each, in addition to

[1] An important exception is that of the Kettering Society which, although a large and progressive society, has no regular sub-committees.

six "committees of the whole house" controlling certain important departments.

(c) In societies centred in the larger cities waste of time in travelling is a serious difficulty, and committee members have often many outside commitments. Hence some method of economizing time is necessary. It is usual in these cases to divide the committee members among about four trading sub-committees, no member being on more than one such sub-committee. These sub-committees usually meet simultaneously, sometimes immediately preceding a full meeting of the management committee. There may also be a finance sub-committee, with a member from each of the trading sub-committees, which must obviously meet at some other time. It will be noted that this form of sub-committee structure closely resembles that of a local authority. A good example of this organization is to be found in the Birmingham Society.

In some cases the assumption still obtains that grocery is the main business of the society, and therefore the responsibility of the whole committee.

§ 3. *Committee Procedure*

In the larger societies much of the detailed work is done in the sub-committees, which have the primary responsibility of supervising the trading of their particular departments. They receive reports, usually in written form, from the departmental managers, giving an account of trade, conditions of the wholesale market, estimated trading surplus, staff changes in the department, etc. The sub-committees interview each of their departmental managers in turn, discussing their reports and any general trading matters. New lines of policy within a department usually originate at this point in the form of suggestions from the departmental manager.

The sub-committees report their proceedings to the management committee. In small societies the chairman of the sub-committee reads out the minutes of the sub-committee from the minute book, but in larger societies it is usual for the minutes to be duplicated and sent to all committee members with the agenda of the meeting. The report of the sub-committee is divided into two parts. First are recommendations of the sub-committee requiring confirmation by the management committee. These include staff appointments, promotions or dis-

missals, purchases of property or equipment, matters concerning any relations with other bodies, such as trade unions. Next come matters which require reporting only; this section is mainly a condensation of the departmental managers' reports, including temporary staff appointments. It normally takes the management committee about ten minutes to go through a report if nothing contentious arises, although some reports may lead to long discussion. Usually about half the time of a meeting of the management committee is given to the examination and approval of sub-committee reports. The rest is taken up by correspondence, arrangements and agenda for general meetings of the society, delegations and appeals on constitutional points. Any important matter of general policy is discussed by the full management committee, but matters of trading policy are always first reported on by the sub-committees concerned.

It is of interest to see how much time is taken by this committee control, and the experience of the Birmingham Society may be taken as fairly typical. In this society the thirteen members of the management committee give about two and a half hours per week to committee work, and the five members of the finance sub-committee a similar period in addition once a fortnight. The secretary and assistant secretary are present at the meetings of the full committee, and four minute clerks attend the sub-committees, which meet fortnightly; the departmental managers will also attend their sub-committees for a short time. In a smaller society there may be less business, but the meetings are usually less efficiently organized, and in consequence the members may have to give more time to committee meetings.

In some societies the sub-committees have direct executive power over the departmental managers, who are responsible to the management committee via the sub-committee and only secondarily responsible to the managing secretary. In other societies—and this, perhaps, is more usual—the sub-committee's function is purely advisory, the main task being the examination of trading matters peculiar to their departments and reporting to the management committee; executive power is confined to the full committee, whose orders proceed to the departmental managers via the managing secretary.

The function of the higher executive officials varies as between different societies. In "type 2" societies with two co-equal chief executive officials—the secretary and the general manager—the only body to co-ordinate their activities is the management committee.

In "type 3" societies which have one chief managing secretary, the status and functions of this official are by no means the same for different societies. In many societies he is, in effect, the general manager, being responsible for the general administration and co-ordination of the activities of the society; in others, however, he is responsible for the secretarial work of the committee and of the society, but is not the effective administrative head. In this case the chairman of the management committee may perform this function to some extent, but usually it falls on the committee as a whole. These differences are partly the result of the personalities concerned, partly of tradition in each society.[1]

§ 4. *Methods of Management*

The general management of the shops of a co-operative society has a great deal in common with that of any retail undertaking. The distinctive features depend on two factors: (*a*) The variety of retail services performed by a co-operative undertaking, and (*b*) the democratic higher control.

A capitalist retail firm will usually concentrate on a relatively narrow range of operations—it may undertake a chain store business or a departmental store, or dairying and milk delivery, or the like. A large co-operative society has to administer successfully a department store (or perhaps even a chain of department stores), an ordinary grocery chain store, a chain of stores dealing in butchery, and so on, a series of bread, milk and other rounds, and personal and property services. If these various lines are all to attain to a sufficiently high standard to compete with separate specialist concerns, quite peculiar problems of management will arise.

The general plan of management is represented diagramatically in Fig. 12. In a "type 2" society (with co-equal secretary and manager) there is a fairly complete separation of the trading section and the secretarial and accounting side. In the larger societies (type 3) all departmental managers are, as we have seen, responsible to the general secretary and to their respective sub-committees, although the extent to which the secretary acts as an administrative head varies.

Attached to each shop are the usual number of assistants and

[1] For a full discussion of the important function of general administration, see Chapter 20, p. 304.

errand boys. In each shop, one assistant (or more if the shop is large) is a *charge hand* with certain special responsibilities. The charge hand will deputize for the branch manager in his absence. Over each shop is a *branch manager* who is responsible for the general running of the shop and discipline. The branch manager is directly responsible to his appropriate departmental manager. The *departmental manager*, working in close relation with his sub-committee, is responsible for buying, fixing retail prices, and general supervision of the trade of his department.

The administrative scheme in many societies will frequently depart from this form in matters of detail. In smaller societies the division of responsibility as between the secretary, general manager and departmental managers is often very anomalous. In one society the general manager was found to buy the groceries and to supervise the whole of the shops, except that the dairy department was entirely independent of him, being responsible direct to the committee. The secretary, however, was responsible for the coal department.

An important problem of management is now emerging, that of the control of branch department stores, and on this no agreed solution seems to have been found. Under the system of management outlined above, each branch manager is responsible solely to his appropriate departmental head. This works satisfactorily for a society in which all branches are one-department shops, but it raises difficulties for societies which are operating several department stores. The most usual solution is to treat the store for the purposes of administration as though it consisted of a series of independent shops, a method which preserves the normal system of management but which is apt to lead to lack of correlation between the departments of the store and a consequent loss in the appearance and quality of the store as a whole. An alternative which is slowly coming into favour is to appoint a "store controller" to supervise the general running of the store. The manager of each department of the store is then responsible to his departmental manager for all matters concerning trade, but to the store controller for anything related to the appearance and operation of the store as a whole. The main obstacle to the adoption of this scheme appears to be fear of friction with departmental managers; certainly, to be effective, a store controller must be a man of initiative and tact.

The regional societies of the south have peculiar problems of

management to face; they depart in certain ways from normal practice, but no generally accepted form of organization has yet emerged. In the Royal Arsenal Society another storey is added to the administrative structure, since the departmental managers are grouped under a foodstuffs manager and a dry goods manager, who come between them and the chief executive officer. In another society three assistant general managers have been appointed with the particular responsibility of supervising branch premises. As might be expected, a store controller is usually appointed for the management of branch department stores.

§ 5. *Recruitment, Promotion and Dismissal of Staff*

The recruitment of staff is in theory under the direct control of the management committee. In a large society much of the engagement of staff, including interviewing, must be done by the officials, but the appointment of new staff is always a matter requiring the confirmation of the full committee.

The majority of co-operative employees are taken on at fourteen, direct from elementary schools. Preference is almost always given to children whose parents are co-operative members. In view of the high percentage of co-operative members among working-class families, this is not a serious limitation of choice. In some societies there is a definite rule that parents must not be carrying on a competitive business; and it is sometimes required that their purchases should exceed a certain average amount. The method of appointment varies. Sometimes there is a simple competitive examination largely in arithmetic and composition. In other cases appointment is left to the departmental manager subject to the formal approval of the committee. In smaller societies the committee may interview candidates.

There is little recruitment from secondary schools, as secondary school boys will normally only enter dry goods departments or the offices, and managers are often more favourably inclined towards those from elementary schools.[1] Appointment is at first only provisional, and there is usually considerable weeding out at sixteen to the extent, in some cases, of about 25 per cent. This opportunity of selection is particularly important in employment in which there is considerable security of tenure. The first step in promotion from the

[1] See Chapter 21.

ranks is to the post of charge hand. This appointment is made by the departmental manager on the advice of the branch manager and is subject to the formal approval of the committee. The appointment of a branch manager is normally made on the advice of the departmental manager, but in this case it is usual for the appropriate sub-committee to interview a short list of candidates.

The post of departmental manager is one of some responsibility, especially in larger societies, and vacancies are not frequent. When a vacancy occurs, it is advertised in the co-operative press and sometimes in the general press. Candidates are interviewed by the sub-committee, the short list candidates meeting the full committee. The majority of these appointments are from within the co-operative movement. In certain departments (notably pharmacy which is developing rapidly) a considerable number of appointments are necessarily from non-co-operative sources.

The procedure in filling the higher official posts (e.g. general secretary and manager) is much the same as for a departmental manager. In some cases, secretaries and managers will be appointed from within the society, but it is becoming more usual to make appointments from among applicants who have held similar posts in other societies. The usual course of promotion for the secretary of a small society is to be appointed to the same post in a larger society.

The right of dismissal is closely linked to the question of discipline. Casual or unestablished employees may be dismissed by the departmental manager on the advice of the branch manager. In the case of fully established employees, however, dismissal is almost always in the hands of the management committee. The departmental manager has the power of suspending an employee, but dismissal must be confirmed by the committee. This arrangement usually works well, but some departmental managers feel that it raises disciplinary difficulties.

Significant points in the staffing procedure are worth summing up:

(1) In many cases promotion will be almost entirely from within. There are medium-sized societies in which practically all the managers and officials have been employees of the society for their whole working lives. There is usually more interchange between the large societies in the case of higher officials, including departmental managers. The great majority, however, come from previous co-operative employment.

(2) Among fully established employees there is a degree of security of tenure very like that of the civil service. Demand for labour is fairly steady, and the participation of employees in membership, coupled with the close personal relationships existing between staff and management, tend to make dismissal (except for actual dishonesty) very rare. The general policy with an inefficient employee is to fit him in where he will do as little harm as possible, but not to dismiss him.

(3) The fact that recruitment is usually made direct from elementary schools, coupled with the fact that promotion is almost entirely from within, is likely to have serious consequences in the future. Modern developments in our educational system are leading to the selection of young people with certain types of ability for higher education, and, if co-operative recruitment methods continue unchanged, these young people will be permanently diverted from co-operative employment. This will restrict unfavourably the personnel available for responsible posts in future years.

Chapter 5

TRADING POLICY OF RETAIL SOCIETIES

§ 1. *Trading Methods*

The social significance of the co-operative form of organization, and the educational and political aims associated with the movement, sometimes obscure the apparently obvious truth that the purpose of a retail co-operative society is to undertake retail trade. The success of a society must first be measured by its efficiency in supplying its members with the goods and services they require; if it falls short of other forms of organization in the quality or economy of service or in sensitivity to consumers' wants, it is failing in its primary function.

Retail societies undertake the distribution of goods and the provision of services to individual consumers. In origin they were formed to supply working-class members with their rather narrow range of daily requirements—chiefly foodstuffs and clothing. Changes in habits of life have, however, led to a considerable extension in the range of co-operative services, and societies now view the whole of retail trade as their potential field of activity. In addition to shop-keeping, retail societies undertake a number of direct services to consumers—e.g. optical and dental services, laundering, house decorating, garage services, funeral furnishing, motor tours and private hire, and the provision of convalescent homes. There are, however, certain services which, by legal provision, co-operative societies are not able to provide; for example, monopolized services such as rail transport, water and power. Co-operative societies are as far as possible endeavouring to supply almost all the needs of the individual consumer, but at present they must be thought of as mainly concerned with those needs which are satisfied through the agencies of retail shops and delivery services.

Retail societies, in the case of a few commodities, undertake the whole of production and supply; in most cases, however, their function is purely that of retailing goods which they obtain from elsewhere. Supplies may be roughly grouped as follows according to their source:[1]

[1] For the proportion from each source, see page 160.

(1) Goods obtained through the agency of the C.W.S.:[1]
  (*a*) produced by the C.W.S.
  (*b*) imported by the C.W.S.
  (*c*) wholesaled by the C.W.S.
  (*d*) sent direct from capitalist producers to retail society but invoiced through the C.W.S.

(2) Goods obtained from other co-operative sources:
  (*a*) from local federal societies.
  (*b*) from agricultural societies.
  (*c*) from "productive" societies.
  (*d*) from members of the retail society (chiefly small quantities of agricultural production from farmers or smallholders).

(3) Goods obtained from private traders:
  (*a*) from private merchants.
  (*b*) from large producing firms.
  (*c*) from local farmers.
  (*d*) from local industrial producers.

The feeling of co-operative loyalty in retail societies usually ensures that goods are obtained, whenever possible, from co-operative sources. Since a society must, however, be sensitive to the demands of its customers, certain goods must be purchased outside the movement, either because the goods in question are not obtainable through co-operative channels, or because customers prefer varieties produced by private firms. The proportion of purchases through each channel varies widely as between different societies; the smaller society dealing in a narrow range of goods will usually buy less outside the movement than a large society dealing in a wider range.

Of recent years, co-operative trading has extended so that examples may be found of almost every line of retail trade, including in this term both the retailing of consumers' goods and the direct provision of consumers' services. Development has not been uniform, however, and the extent to which co-operative societies have been successful in different lines of trade varies widely.

In Fig. 14 comparisons are made between the trade in different departments, these departments being arranged roughly in the order of the frequency of their occurrence. The second series columns give the distribution of co-operative trade between the various departments, and the last two columns that percentage of the total national

[1] For Scotland, read S.C.W.S. for C.W.S.

retail trade in each department which is carried through co-operative channels.

Under "sundry and unclassified", the most frequently occurring departments are laundries, restaurant services, funeral furnishing, and house decorating. In addition, some of the larger societies undertake travel agencies, motor coach services and hire, furniture removals. sports outfitting, garages and car maintenance, engineering and electrical equipment, garden requisites, holiday homes, photographic work, window cleaning, musical instruments. The total trade in these departments is, however, relatively small.

The backbone of co-operative trade is still the sale of foodstuffs, and especially of groceries, which are sold by all retail societies. Foodstuffs account for over 70 per cent. of total trade, but their importance relative to other departments has decreased in recent years. What is more significant, the co-operative share of national trade in groceries has also slightly fallen, although in most other departments considerable progress has been made. The chief cause of this fall is probably the very rapid development of chain stores in the grocery trade. The co-operative movement holds a predominant position in the production and distribution of bread. This is frequently one of the most important of a retail society's lines of trade as well as one of the most remunerative. The co-operative society is often the largest bread distributor in its area and is in a position to decide bread prices. The most rapidly developing food department is that of dairying and milk delivery, which is receiving special encouragement from the wholesale societies and the Co-operative Milk Trade Association.

Drapery and millinery is the most important non-food line, but this category really includes several very different lines of trade. Most larger societies operate well-equipped central stores selling a wide range of fashion goods and more or less expensive articles. In the smaller societies, especially those near large towns, the successful drapery departments are those which do not sell fashion goods but concentrate on a limited range of day-to-day requirements. Care must thus be taken in making statistical comparisons for, whereas the range of grocery goods is much the same in a large and a small society, the drapery departments are likely to be concerned with the sale of quite different commodities. The expansion of drapery, tailoring and furnishing is closely linked with the growth of "club

FIG. 14

DEPARTMENTAL ANALYSIS OF THE SALES OF RETAIL SOCIETIES IN GREAT BRITAIN AND IRELAND

	Departmental Totals (£m)				Departmental Percentages of Total Co-operative Trade				Co-operative Percentages of Total Nation's Trade (*b*)	
	1925	1930	1932	1935	1925	1930	1932	1935	1925	1932
FOOD: (*c*)										
Grocery (including bread and confectionery)	130·8	126·1	120·9	127·2	71·2	58·1	60·1	57·7	22·7	22·6
Meat (excluding provisions and cooked meat)	12·4	18·9	16·8	18·8	6·8	8·7	8·4	8·5	4·8	7·9
Dairy	4·7	10·9	12·3	17·0	2·5	5·0	6·1	7·7	5·3	13·2
Fruit, Vegetables and Fish	1·7	2·8	3·1	3·6	0·9	1·3	1·5	1·6	0·5	1·1
TOTAL FOOD	149·6	158·7	153·1	166·6	81·4	73·1	76·1	75·5	12·3	14·0
CLOTHING AND FOOTWEAR:										
Drapery and Millinery	11·0	17·8	16·0	17·5	6·0	8·2	8·0	8·0	4·1	9·4
Tailoring and Outfitting	2·7	5·9	5·3	6·0	1·5	2·7	2·6	2·7		
Footwear (including repairs)	3·6	6·0	5·1	5·7	2·0	2·8	2·5	2·6	4·4	9·1
TOTAL CLOTHING AND FOOTWEAR	17·3	29·7	26·4	29·2	9·5	13·7	13·1	13·3	4·1	9·3

OTHER CONSUMERS' GOODS:										
Furnishing, Hardware, Earthenware, Jewellery, Cycles	—	5·3	5·6	7·2	—	2·5	2·8	3·3	—	5·0
Coal	5·0	8·7	9·1	10·0	2·7	4·0	4·5	4·5	7·7	14·0
Pharmacy	0·3	0·8	1·0	1·3	0·2	0·4	0·5	0·6	3·7	6·2
(*a*) Sundry and unclassified	11·3	14·1	6·0	6·1	6·2	6·3	3·0	2·8	—	—
TOTAL (EXCLUDING FOOD, CLOTHING AND FOOTWEAR)	16·6	28·9	21·7	24·6	9·1	13·2	10·8	11·2	—	—
TOTAL OF ALL COMMODITIES	183·5	217·3	201·2	220·4	100·0	100·0	100·0	100·0	—	(*d*) 8·8

Co-operative Percentage of National Trade (1935) = 8·1.

NOTES.—(*a*) "Sundry and unclassified" consists of lines of trade (e.g. laundries, funeral furnishing) which are not included in the other categories; it also includes all non-food articles of certain smaller societies not operating separate furniture, coal, etc., departments. The diminution in this item is probably not due so much to a change in trade as to better classification in later years.

(*b*) The figures for national retail trade in food, clothing, footwear, coal, and pharmacy are obtained from Feavearyear's estimates. For furniture Colin Clark's estimate of national trade is £102,000,000 (1932); to this must be added approximately £10,000,000 for cycles, domestic pottery and cutlery.

(*c*) The analysis between the various food items is probably not accurate; many small societies group fruit, vegetables, and other food items with grocery. Grocery also includes certain non-food items—soap, candles, etc. In calculating total national trade to correspond with co-operative grocery departments, the national expenditure on smoking requisites of £120,000,000 (1925) and £144,000,000 (1932) has been added to the figures of £458,000,000 (1925) and £391,000,000 (1932) for grocery, provisions and cooked meat.

(*d*) The calculation of the co-operative percentage of total national retail trade is based on Colin Clark's comprehensive estimate of £2,296,000,000 for 1932 and £2,750,000,000 for 1935. (Figures of total retail trade not available for 1925.) These figures include retailing in the narrower sense together with expenditure on drink, tobacco, newspapers, coal, private cars, and petrol sold to private motorists. If expenditure on drink and cars is eliminated the co-operative percentage of the national total is 10·7 per cent.

trading", which is considered in the next section. The increase in the furniture trade has been aided and stimulated by the progress in C.W.S. furniture production. A very rapidly expanding section, although new in many societies, is that of pharmacy.

Co-operative retailing has thus made a beginning in almost all the main sections of retail trade, and in some has advanced far; but development has not been uniform. There are a few lines in which progress has been slight in all districts; there are also very many departments which are operated successfully but only in a limited number of societies.

The main gaps in co-operative retailing are specialized goods catering for a limited market and lines of trade which require craft equipment on the part of the shopkeeper. The first class consists of commodities which customers will only buy at shops which stock a wide selection of goods, e.g. sports equipment. Shops dealing in these commodities depend upon goodwill and look to providing a complete service in a narrowly limited range of business. Shops requiring craft equipment often overlap with the above and include watch selling and repairing, saddlery, electrical equipment and services, photography and photographic materials. Modern methods of production, however, are undoubtedly lessening the scope of the small craftsman-shopkeeper. An important group of commodities which do not fall strictly into either of the above classes, but which are largely outside the field of co-operative trade, are the allied lines of bookselling, the distribution of newspapers and periodicals, and the selling of stationery and writing materials. One of the causes leading to this situation has been the complete boycott of co-operative societies by the National Federation of Retail Newsagents, acting in association with the Newspaper Proprietors' Association. This boycott has prevented retail societies from undertaking newspaper distribution, except in the case of co-operative periodicals. The demand for writing materials and books among working people has in the past been rather small and has largely been met by the stationer-newsagent. It thus appears that the failure to enter the newspaper trade accounts for the small co-operative development in stationery and bookselling, although difficulties have also arisen in connection with the sale of copyright books. It is, however, noteworthy that these lines of business, which have proved a successful field for chain-store methods, should be almost completely untouched by co-operative trade.

The fact that the co-operative movement is founded upon the shop and the individual consumer has led to the neglect of publicity methods needed to develop trade with corporate purchasers in their requirements, e.g. office equipment and supplies and bulk stationery. While the co-operative movement cannot, in general, look to custom from private trading concerns, there is an increasing number of societies, institutions, clubs and churches which might have their needs met through co-operative channels but which at present rarely do so.

In addition to these definite gaps in co-operative supply, many services are available in certain areas only. The commonest reason why a society does not undertake a certain line of business is its inability to do a sufficiently large trade in the commodity in question. This limit is determined by three factors: first, there are certain retail services, e.g. dairying, in which overhead charges are high and in which turnover must be large for economic operation; secondly, some lines require for success that a large range of stocks should be held; thirdly, there are lines of business or methods of trade which depend upon goodwill and upon the retailer building up a reputation. Hence there is a minimum rate of turnover for each line of trade below which it is not profitable to undertake it. This results in certain lines of goods not being retailed at all, either by co-operative or non-co-operative channels, in rural and outlying areas; those who wish to procure such articles must travel to the larger shopping centres to obtain them.

More significant from the standpoint of co-operative organization is the fact that in many areas private retailers or chain stores are dealing successfully in goods not available through co-operative channels. There are, for example, towns in which there are flourishing private but no co-operative butchery shops, greengrocery shops or cafés. The main reason for this lies in the difference of the trading tactics of a co-operative society as compared with a specialist private concern. The specialist shop aims at obtaining the trade of the *whole* population for a narrowly defined range of goods; a co-operative society, on the other hand, aims at obtaining the trade in all lines in which it deals from a loyal *section* of the population. This means that in lines of trade such as grocery, bread and milk delivery in which there is considerable competition between different retailers, the co-operative society, by virtue of its loyal membership, will probably have the

largest turnover of any retail undertaking in the town. In those lines in which trade is in the hands of a few specialist shops, the question which the co-operative society has to determine is whether it is possible to obtain from its loyal section of the population, possibly about one quarter, a sufficient volume of trade to enable it to compete with the specialist shops. The situation is often rendered more difficult by the fact that the lines of trade in the hands of specialist shops are those in which working-class purchases are smaller than those of other sections of the population.

In addition to irregular development as a result of conditions of demand, there are gaps in co-operative service due to conditions of non-co-operative supply. In colliery districts, societies commonly do not enter the coal trade, as their members are able to obtain their supplies more cheaply through other channels; rural societies often do not supply milk, as members obtain it direct from local farms. In many small societies the close personal contact with local traders deters societies from entering new lines of trade. In a village society the local butcher or milkman may obtain his groceries through the society; he may be an enthusiastic co-operator or even, in a few cases, on the management committee. Under these circumstances, there is an understandable opposition on the part of the membership to extension. Even where there are no links of this kind, there is in a village or small town a strong sentiment against entering into competition with a known and respected local trader. Finally, there are, of course, the usual factors of inertia and conservatism. The retailing of "bread and butter" commodities is fairly easy; launching out into new lines involves risks which may be foreign to the experience of a small society and demands a skill in salesmanship which it may be hard to obtain.

§ 2. *Dividends and Prices*

The payment of "dividend on purchases" is a distinguishing mark of the consumers' co-operative method of industrial organization.[1] After all the expenses of trade in a retail society have been met, including allocations to specific reserves, a fixed rate of interest—usually of about 3 or 4 per cent.—is paid on share capital. The surplus remaining is the distributable surplus, sometimes incorrectly called the net

[1] See the Webbs' *The Consumers' Co-operative Movement*, pp. 4–6, 8–11.

profit. Certain allocations are made to general reserves, and for charitable and educational grants. The major part of the surplus is returned to the members divided in proportion to their purchases during the trading period. Over the country as a whole, 93·9 per cent. of the distributable surplus is returned as dividend on purchases. Of the remainder, which represents a surplus of 1½d. per £ of sales, 3·9 per cent. is accounted for by allocations to general reserves, 1·1 per cent. by grants to education, 0·5 per cent. by grants to charities, and 0·6 per cent. by bonus to employees, which is paid only by sixty-two societies.

The payment of dividend has required the development of some system whereby the purchases of each member can be recorded. It is important that this should be done accurately, cheaply and without inconvenience to the member. There are three systems at present in use. Under the first, the member receives a metal token or a voucher (sometimes a gummed slip to be affixed to a card) on making each purchase, retains these, and presents them periodically as a record of total purchases. The second is the familiar "climax" check system. The member states his number when making a purchase. The assistant records the number and the amount of the purchase on a slip which is torn out and given to the member. Two carbon copies are taken which are retained by the society. A mechanical cash register is sometimes used which makes the necessary triplicate record of the amount of the purchase and the number, and issues the member's check. Under the third system, the member is provided with a book which he presents when making a purchase, the amount being recorded therein. Of these three systems the second is the most usual and appears to be the most satisfactory. It is simple for the member, who need do no more than remember his number; there is no need for him to retain slips, except to check the accuracy of the societies' records; dividend accrues automatically, and the member need take no action until he wishes to withdraw it. The method definitely associates dividend and membership, in contrast with the first system, under which tokens may be transferred. Finally it gives the society a continuous record of members' purchases and a check upon cash received. At intervals, the assistant—or if there is a centralized cash system, the cashier—gives up the duplicate slips which should correspond to till money. The checks are then sorted according to number, and the amounts of the purchases are credited to the members. The main information

obtainable by means of the check system is (1) cash received by each assistant or cashier, (2) total purchases of each member for calculation of dividend payments, (3) departmental purchases of each member for the use of canvassers. It is of interest to notice that co-operative societies have available far more detailed records of the amount and distribution of customers' purchases than are available to any other retailing organization. Very little use is made of this information, but it might be of considerable value in guiding development policy.

At the quarterly or half yearly meeting a recommended rate of dividend is incorporated in the management committee's report, which requires acceptance by the members. Each retail society is thus free to determine its own dividend level. While there may be small variations between neighbouring societies, dividends in any one district are usually at about the same level. There are fairly marked divergences between different parts of the country. Higher dividends are the rule in Scotland and the North. In the Midlands and South, high dividends are paid in a few isolated village societies, but in the larger societies relatively low dividends are usual. Dividends over the country as a whole show a marked trend towards a lower level, especially since the War. The average of the rates of all societies has declined as follows: 2s. 10d. in the £ in 1902; 2s. 8d. in 1912; 2s. in 1932; 1s. 10d. in 1935.[1] Fig. 15 shows the variation in the rate of dividend paid. It will be seen that 54 per cent. of the societies pay dividends of 2s. in the £ or less to 70 per cent. of the members and on 65 per cent. of the total retail trade of the movement.

While dividend on purchases is regarded as a method of distributing the trading surplus, a surplus which arises as the result of selling goods at (or, as in the North, above) market prices, from the point of view of the manager, it appears as a cost which has to be met out of the selling price. Prices are commonly fixed by departmental managers. A uniform dividend is normally paid on the goods of all departments. Thus unless the price policies of the departments are in line, one will, in effect, be subsidizing another. This happens to some extent, but it is usually undesirable, and pressure is consequently exerted on departmental managers to see that each department "earns its dividend". Under those circumstances the dividend must appear to the departmental managers as a cost.

[1] For a fuller statistical treatment of rates of dividend, see J. A. Hough, *Dividend on Co-operative Purchases* (Co-operative Union).

Although rate of dividend varies considerably as between different societies, any attempt to reduce dividend either below the accustomed rate for the society, or below the normal rate for the district, is difficult. Societies which had previously paid a high dividend have, in a few cases, reduced dividend as a first step towards adopting a low price and low dividend policy. Difficulty with the membership has been

FIG. 15

RATES OF DIVIDEND ON PURCHASES, SHOWING THE NUMBER OF SOCIETIES, MEMBERSHIP AND TRADE FOR EACH RANGE OF RATES, 1935

Rates of Dividend	Number of Societies		Membership		Trade	
	No.	per cent.	Numbers	per cent.	£	per cent.
6d. in the £ and under	7	0·7	5,245	0·1	83,708	0·1
6½d. up to 1 – ..	63	5·9	811,485	11·0	17,499,599	8·0
1 0½ „ „ 1 6 ..	195	18·2	2,147,177	29·1	55,216,037	25·4
1 6½ „ „ 2 – ..	312	29·1	2,249,452	30·5	68,718,949	31·6
2 0½ „ „ 2 6 ..	288	26·9	1,502,244	20·4	49,664,680	22·8
2 6½ „ „ 3 – ..	129	12·0	431,985	5·9	16,933,136	7·8
3 0½ „ „ 3 6 ..	61	5·7	165,128	2·2	7,423,114	3·4
3 6½ „ „ 4 – ..	12	1·1	43,343	0·6	1,889,798	0·9
4 0½ and over	4	0·4	10,690	0·2	307,929	0·1
Totals	1,071	100	7,366,749	100	217,736,950	100

NOTE.—Some small societies do not give particulars of their rates of dividend on purchases. The omission of these societies explains the discrepancies between the totals given in this table and figures of membership and trade and the number of retail societies given elsewhere for the same year.

avoided by explaining the tactical reasons for the action. An unexplained and considerable drop in dividend is, however, usually regarded as the first sign of financial difficulties. It is likely to make the position of the management committee insecure and, since a retail society serves in many ways as a savings bank, it may also lead to a withdrawal of capital. In consequence, the dividend of a society tends to remain at a fairly even level from year to year. In some societies this tendency to a normal dividend shows itself in the payment of a

dividend and bonus. If the trading surplus is above the average, a society may pay a bonus, trying to avoid by this means an increase in the rate of dividend which might be difficult to reverse in subsequent years.

The stability and large volume of sales of a typical co-operative society, coupled with modern costing and book-keeping methods, has made possible a much more accurate forecasting of the trading surplus. The manager of a fairly large society stated that it was possible in his society to estimate expenses and hence trading surplus to an accuracy of ½d. in the £ under normal conditions. There is thus no practical difficulty in maintaining dividend at any desired level, within certain limits. It would similarly be possible to adjust prices to equal costs, thus eliminating dividend.

In the early days of co-operative retailing, prices were fixed by the management committee, and the practice is still retained in a few small societies. It is, however, now almost universal for prices to be fixed by the permanent officials—in small societies by the general manager, in larger ones by the departmental managers. In the latter case the general manager or managing secretary makes it his responsibility to supervise the price policy of the society as a whole. The management committee is usually notified of any important price changes, but does not exert any detailed control; advice to the effect that "prices are to be competitive" would appear to be the limit of their intervention under normal circumstances.

There is considerable variety in different societies in the method of fixing prices. Many societies, especially in centres where competition is not keen or where there is a small loyal membership, work on the basis of a customary "mark up" on the wholesale price in each department. In areas of keen competition, however, societies have to keep their prices in line with those prevailing in the district. In many cases there appears to be no systematic means of checking prices; in some, however, a canvasser or an assistant is detailed to observe prices in other shops. Even when a conscious endeavour is made to conform to local prices, there is still the question as to which prices. In high dividend areas (i.e. with dividend over 2s. 6d. in the £) it is usual to keep grocery prices in line with the better class independent stores in the town. In the lower dividend areas, in which co-operative loyalty counts for less, prices are usually regulated by the chain stores. Societies do not normally attempt to compete with cut-price stores,

although it must be recognized that the boundary between cut-price stores and the regular chain stores is somewhat indefinite. It is fairly true to say that, over the South of England and the Midlands, co-operative prices keep roughly in line with those of the better quality chain stores.

A very common piece of advice to managers is "to let dividend take care of itself", which appears to mean that prices should be market prices, and the dividend should be the normal trading profit. This is unsatisfactory advice for two reasons. First, the market is not a perfect guide; with a series of unstandardized commodities and a number of different types of retailers, there is often a considerable range of price which may be called "competitive". Secondly, in an increasing number of commodities, the co-operative society controls the market. This is frequently true of bread and was true of milk before the coming of the Milk Marketing Board. In many other articles the local co-operative society will be one of the main retailers in a district, and its price policy will exert a strong influence on prices generally. In consequence, there is a growing need for a more positive basis for co-operative price policy. If co-operative undertakings should ever be in a position to control the prices of a large range of goods, then some independent method of costing would be the only basis of co-operative pricing. At present, prices must be fixed in relation to market prices; but prices and dividends are both to some extent controllable. The relation between price and dividend is a complex one—more complex than that between price and profit in capitalist organizations—for the rate of dividend and the level of prices both have a direct influence on purchases and, therefore, on turnover and costs. The influence of dividend on demand has, moreover, never been investigated. One thing is certain: it is not possible to make the simple assumption that the dividend is equivalent in its effect to a proportional reduction in prices. Experiments along the line of a greatly reduced dividend have not been encouraging, for the following reasons. First, customers tend to take prices as an index of quality, and would not believe that a 1s. 6d. article was as good as one marked 1s. 8d. in a private shop; they do, however, accept an article priced 1s. 8d. in a society paying 2s. in the £ dividend as being of an equal value. Secondly, the dividend provides a direct inducement to membership. By thus creating a "collectivity" with a certain degree of loyalty, the system of dividend leads to important trading economies.

Thirdly, there is a direct satisfaction in obtaining a dividend rather than an equivalent reduction in price. It provides a way of unconscious saving for holidays or emergencies; in many families, the dividend represents the personal savings of the housewife, who thus has a direct incentive to buy through co-operative channels. For these reasons, it is doubtful whether it would be wise for societies to reduce dividend sufficiently to sell well below market prices.

Reference has already been made to the wide variation in rates of dividend. In some areas, a high dividend of 2s. 6d. up to 4s. in the £ is paid. Prices, although not above those in some private shops, usually tend in these cases to be slightly higher than those obtaining in the more efficient of the chain stores. The level of dividend is much easier to observe than the level of prices, and there is a distinct temptation for the management to drift into this policy of higher prices. The effect depends upon the habits of the people. For some, the attractiveness of the dividend is important, even though prices rise above market prices. There is, however, a growing feeling that a high price and high dividend policy savours somewhat of deception, and high dividends are less of an incentive than was once the case. The most serious objection to such a policy is its adverse effect upon those with a low income level; members near the poverty line may not be able to afford high prices, even though the difference will be subsequently returned to them in the form of dividend. This may lead to a divergence of opinion among the members in industrial areas—e.g. the Durham coalfield—in which there is a considerable body of unemployed. It has been noticed that a moderately high dividend (about 2s. 6d.) will sometimes have the effect of stimulating efficiency in an area of low co-operative loyalty. The departmental managers are conscious that in such an area prices will be viewed critically by purchasers and that it will be difficult to make up the dividend by charging higher prices; they will, in consequence, endeavour to make the dividend by increasing internal efficiency and turnover.

Passing from general price policy to departmental prices, an interesting problem arises. One of the important co-operative economies is the low cost of raising capital,[1] but the ratio of working capital to turnover varies as between different departments. Thus the net surplus—expressed per £ of sales—earned by a co-operative society

[1] See pp. 128, 378 and 434.

tends to be larger in those lines of trade in which the ratio of sales to working capital is lowest. This means that co-operative economies are least in departments in which the ratio of sales to capital is greatest —i.e. in the grocery and food departments. If prices are to be kept at market level in all departments, internal price policy must be based not upon earning a uniform dividend rate on sales, but upon earning a uniform rate of return on capital. This will require that some of the dividend on departments with a lower rate of turnover should be used to subsidize those with a higher rate. In practice, many factors confuse this analysis, but there is evidence that it is true in broad outline.

Retail societies are free to fix the selling prices of most of the goods with which they deal, except in the case of proprietary articles whose retail prices are fixed by the private manufacturer. The C.W.S. fixes maximum retail prices in the case of a few lines, but its normal practice is to fix wholesale prices only—especially in the case of groceries. The policy of national fixed prices for C.W.S. goods is a subject of discussion in the movement at the present time, and a resolution in favour of this policy has been passed by the Co-operative Congress. The following arguments are urged in favour of the policy:

(1) The adoption of uniform prices would facilitate advertising on a national scale, especially in the press, with the object of building up a national goodwill for C.W.S. goods. (2) In high price and high dividend areas, proprietary articles, selling at fixed national prices, are likely to gain a competitive advantage over C.W.S. products whose retail prices may be increased in order to earn the dividend. (3) The fixing of retail selling prices would do something to restrain high price and high dividend policy. (4) A uniform price policy would do much to simplify democratic supervision; it would prevent societies covering up inefficiency of operation by minor increases of price and would make the dividend level more useful as an indication of efficiency.

There has been a definite disinclination to adopt this policy for various reasons. The retail societies are very jealous of their own powers and local officials are anxious not to lose to the C.W.S. the discretion which they now possess. But probably more important is the opposition of committee men in high dividend areas who, in the event of prices being fixed at a level acceptable to other societies, would be forced either to face the unpopularity of reducing the

dividend or to increase the efficiency of their societies considerably. It is frequently asserted that uniform prices could not be attained without the enforcement of uniform dividends. This appears to be based on a complete misunderstanding of the situation. Under a fixed price policy, variations in dividend would, in fact, continue and would be a much surer guide to efficiency of operation than at present. There appears to be a strong case for a wider fixing of national maximum prices; but societies should have the right to sell at lower prices If they desired.

§ 3. *Credit Trading*

in view of the evils of excessive credit trading among people with small incomes, co-operative sentiment has been strongly opposed in the past to the granting of credit in any form. The prevalence of the habit, however, made it difficult for societies to keep entirely to cash trading, and in 1935 the average indebtedness of members to their societies was about 17s. per member. Credit is not all of one sort, however; and distinction must be made between credit granted on regular delivery services, club trading and hire purchase on the one hand, and irregularly extended credit on the other. The granting of credit for the daily supplies of bread and milk is largely the result of the inconvenience of cash payment on delivery. In some societies, especially in the poorer districts, credit is avoided by issuing tokens which may be purchased in advance and used for payment. Usually, however, the familiar methods of the bread book and the milk book are adopted. The granting of weekly credit on regular grocery parcels falls into much the same category.

Club trading is of particular importance in the clothing department and is usually confined to purchases of from one to five pounds in value. There are two chief forms of club trading—the "draw club", which is the older form and is common in the industrial villages of the North, and the "mutuality club", which is more recent and has developed rapidly among the societies of the Midlands and South. The "draw club" operates over a fixed period, usually twenty weeks. Members pay 1s. per week for each pound of purchases. Each week the names of one-twentieth of the members participating are drawn and they are allowed to make their purchases at once. The weekly payments are made through the society's branches and, in a fairly

compact society, it is not necessary to employ collectors. As the amount of the money drawn out of the club is always equal to the amount which has been paid in, the method does not involve any interest charge for the society. The cost of operation is therefore very small.

In "mutuality trading" or, as it is sometimes termed, the "mutuality club", there are few vestiges of a club left; the name is used to describe a form of systematized credit. Any member desirous of trading in this way applies for registration and agrees to contribute X shillings per week for twenty weeks. After his application has been accepted by the office and a certain number of weekly contributions have been paid, usually about three, the member receives vouchers to the value of £Y which may be used as cash in certain of the society's departments. There is a limit to the total amount of credit allowed to any member at one time under the scheme, usually about £5, but it may be related to the shareholding of the member. The weekly payments are, in some societies, in part received at the branches, but the greater proportion is paid to club collectors. The cost of operation of mutuality trading is, therefore, considerably more than that of the "draw club"; but, in the more scattered societies of the South, the employment of collectors is essential to ensure regular payment. These collectors are in an exceptional position among co-operative employees; they are paid entirely by commission—usually 5 per cent. on money collected —and as a group are fairly independent of the management, organizing their own rounds and arranging among themselves for relief duty. They are usually drawn from among the membership and keen co-operators are appointed rather than professional collectors, the posts being much sought after. Collectors canvass widely for club trade and usually also endeavour to obtain hire purchase orders and new members. In a few societies a poundage of about 6d. is charged on club trading, but in most cases the terms of trade are the same as for cash, the cost of operation being met out of the retail margin. The average cost is about 1s. 2d. per £ of trade conducted under the scheme. Of this the major part is commission to collectors; interest charges are about 1½d. in the £, and bad debts are usually only about $\frac{1}{10}$d. in the £. The knowledge which the society has of its membership, the character of the typical co-operative member, and the fact that the society can, in emergency, recover debts from the member's shareholding, account for this low cost of bad debts.

The distinction between "draw club" and mutuality trading is not an absolute one and some societies operate schemes with some of the features of both. It seems plain that the future lies with the "mutuality" form of organization. This has developed with surprising rapidity in the Midlands and South and in very many societies well over half of the clothing trade is conducted in this manner.

Articles of furniture are commonly sold under ordinary hire purchase agreements. The form of these agreements does not appear to differ markedly from the normal practice in non-co-operative trade. The costs of operation, and in particular costs of bad debts, would appear to be lower in co-operative trade than outside, but reliable figures are not available.

Extended credit on open account, although repudiated by the pioneers, crept in at an early date. Efforts are made to reduce this, but it still exists to a large extent, especially in certain districts. Such credit is often limited to the amount of the shareholding, and in some societies, if payment is delayed for more than a certain number of months, interest is charged.

The Co-operative Union has for many years recorded the average amount of money owing per member and, since 1927, has distinguished between credit on open account and organized credit (club trading or hire purchase). An interesting feature is the relative increase in importance of organized credit in recent years. Average indebtedness has been much higher in the Scottish and Northern sections than in the Midlands, South and South-west.[1] In 1900 amounts owing per member in the first two sections stood at 13s. and 19s. 5d. respectively as against 5s. 2d., 4s. 2d., 1s. 9d. for the latter three; in 1935 these sums had become £1 4s. and £1 2s. 2d.; and 17s. 2d., 15s. 11d., 19s. respectively. The increases in the Midlands, South and South-west are in part due to the increase in organized credit; the percentage indebtedness due to sums outstanding on club and hire accounts in those areas for 1935 were, respectively, 66, 77, 49 per cent. In the Western section (chiefly Wales) indebtedness rose between 1920 and 1921 from 16s. 5d. to £3 15s. 5d. per member, standing in 1935 at £2 13s. 5d.; this was largely credit on open account. In general, it appears that a working-class emergency—either a strike or trade depression—leads to an increase in ordinary credit, whereas better

[1] The incidence of unemployment and industrial disputes is, of course, a material factor.

working-class conditions tend to stimulate club trading, which is largely used for the purchase of articles other than necessities.

§ 4. *Advertising and Salesmanship*

The aim of the consumers' co-operative movement is to extend the sphere of the voluntary democratic control of capital over an increasing range of economic activities. This fact gives a distinctive character to the development and sales promotion policies of the component undertakings. It was originally maintained that co-operative retailing had no need of advertisement and that the saving obtained in this way was a legitimate co-operative economy. This situation has changed with the expansion of co-operative membership and trade, but it is still true that co-operative publicity is something different from that of private trade.

In the small village societies of about 250 to 500 members, publicity in the ordinary sense is practically unknown, except for the display of a few bills in the shops. There is no need to advertise the stores, which are well known to all. Advertising is only needed to inform members how they may obtain, by co-operative channels, goods and services not obtainable directly from the local co-operative society. It must be admitted, however, that in most village societies, information of this sort is seriously inadequate.

In the larger societies the scope of advertising and sales promotion is considerably wider; there are, however, few matters in which there is a greater variety of method and upon which more diverse opinions are expressed by co-operative officials. The responsibility for the sales promotion policy of retail societies falls upon a variety of different officials. In a few of the larger societies (over 10,000 members) there is a separate publicity department; this is exceptional, however, and even some of the largest societies in the country are not so equipped. Where such departments exist, they are usually not responsible for the whole publicity of the society, varying amounts being in the hands of the departmental managers. Where there is not a publicity department, the responsibility for advertising is shared between the departmental managers and the secretary or general manager's office. The situation is further complicated by the fact that some of the functions of propaganda are managed, not by the trading side at all, but by the Education Department which, in the majority of societies, is adminis-

tered quite independently of the trading organization under a separately elected committee.

The immediate aims of retail publicity activities may be grouped into three categories: (1) obtaining new members, preserving and increasing members' loyalty, and education in co-operative ideals; (2) informing the membership of services available; and (3) increasing incentives to buy. Certain of the publicity activities of societies will, of course, perform two or more of these functions.

The most direct effort to obtain new members is by the employment of canvassers. Many of the large societies have a few canvassers, some as many as twenty or more, but usually only one or two. Each canvasser is given an area and has two main functions: trying to obtain new members, and visiting members whose purchases are low. Frequently, however, the post of canvasser is combined with that of order-collecting or debt-collecting for mutuality clubs; under these circumstances the function of canvassing usually drops into the background. Canvassers are often chosen as enthusiastic co-operators rather than professional salesmen. In the Ten Acres and Stirchley Society, in addition to regular canvassers, the local committees organize voluntary helpers as district visitors.

A very characteristic form of co-operative publicity is that of propaganda meetings. These are usually organized by the Education Department, but in close co-operation with the trading side. They take a great variety of forms—talks by co-operative officials, variety performances, mannequin parades, advertising films (issued for the C.W.S.), social evenings, or, more frequently, a programme consisting of an assortment of these. Meetings of this kind are particularly successful in rural villages. The C.W.S. and local societies also arrange periodic exhibitions of goods and processes. Owing to the wider experience of the C.W.S., the standard of these is usually high. It is difficult to assess their results, but they are probably most effective in the larger market towns.

Publicity is also obtained through various publications. The most significant in this connection is the *Wheatsheaf*. It is produced by the C.W.S. as a family journal for co-operative publicity. Containing as it does both national and local pages, it is a very important source of information and helps to increase the solidarity of the membership.[1]

The main general channels of information are newspaper advertise-

[1] See Chapter 14.

ments, handbills, the cinema and announcements in shops. Of these, advertisements in local papers are the most important. In most centres, co-operative societies are doing considerably more newspaper advertising than the chain stores, but less than local department stores. In the smaller towns the co-operative society may even be the largest local advertiser. In market town societies, catering for a large area by van delivery, duplicated handbills, inserted weekly in members' grocery parcels, are a useful way of keeping a scattered membership informed of the society's activities. It is the experience of co-operative officials that information is only successful in so far as it is directed to *members;* postal circulation of trading information to all the residents in a district is not worth the cost involved.

Other factors influencing trade with a society are shop equipment and location, window dressing, packaging and salesmanship. These have a twofold function: first, to attract new members by increasing confidence in the society; secondly, to induce members actually to buy. Shop equipment and design, once rather poor, is now often very good as a result of the service of the C.W.S. Window dressing and display reach a high standard in some societies, but are much below the general standard in others. These matters are the responsibility of departmental managers in most societies. There is rarely any attempt to develop this as a specialized art in the hands of an expert, as in many private stores. Packaging, where it is performed by retail societies, usually suffers from the same defect.

One of the most frequent charges made against co-operative retailing is that of bad salesmanship and poor service on the part of assistants.[1] This is probably exaggerated, and in many societies service is certainly equal to that in a good private shop. The charge is not unfounded, however, and the following reasons may be adduced to its frequency. First, there is a tendency for assistants to treat customers as equals and to lack the servility which is sometimes in evidence in private shops. This does not necessarily lead to poor service. Secondly, the greater security of tenure, right of appeal to the management committee before dismissal and, in a few societies, the influence of employees in elections do not favour strict discipline, and the quality of service may suffer in consequence. Thirdly, even where the will is present, there is frequently a lack of systematic and scientific training in salesmanship.[2]

[1] See Chapter 22, § 5.

[2] See Chapter 13.

Organized sales promotion has come more into evidence in the co-operative movement in recent years. The relative value of many sales devices—that is the increase of trade to be expected from a given increase in advertising expenditure—is, however, likely to be less for co-operative societies than for private traders because of the influence of co-operative loyalty in the former. The chief weakness of co-operative advertising and sales methods lies in the failure to deal with the matter in a specialized and scientific manner. Designing advertisements, window dressing, packaging, and training of salesmen, which demand specialized ability, are too often left in the hands of a variety of officials and are consequently treated as "odd jobs". In some of the larger societies, it may be possible to establish publicity departments with adequate equipment and specialized staff. Progress over the country as a whole, however, seems to depend upon an effective national advertising system—which would undertake design for press and poster advertising, both locally and nationally, and package design. The success of the C.W.S. Architects Departments gives reason to hope for development along this line.

§ 5. *Architecture and Shop Equipment*

Co-operative societies were often pioneers in developing central department stores. Unfortunately, this development took place during a period in which shop design was ornate rather than beautiful. In consequence, the movement has a legacy of stores of a heavy and not very attractive appearance. Many of their stores, too, lack unity and harmony of layout and general appearance. This is chiefly the result of the stores having grown with the development of the society, so that buildings are a mixture of ages and styles; a contributory factor, however, is often the sectional nature of administrative control and the lack of a single executive head—a subject which is discussed elsewhere. Of recent years, however, there has been a very marked improvement, thanks to the work of the C.W.S. Architects Departments, and the design of many of the modern co-operative department stores is undoubtedly very effective.

Although central department stores attract the most attention one-department shops are of much more importance in point of numbers. It cannot be said that the appearance of small private shops sets a very high standard in this country; they can usually be classified

nto the dingy, the untidy and the garish. Chain stores often keep ıp a better standard of neatness and cleanliness, but have a uniformity ›f design which may clash with their setting. Co-operative shops do ıot show up badly in comparison.

In rural villages there is often a marked difference between the ›remises of independent village societies and those of village branches ›f a town society. The independent village society will have premises ›f the typical "village shop" type, often quite well kept though not nodern; branches of town societies are usually constructed more in the chain store style.

The commonest visible evidence of co-operation in this country is the suburban grocery store and it is here that the standard is probably lowest; many societies with really good central premises have very poor branch shops. A clean, roomy, and comparatively well-equipped shop will often be found behind a dingy and untidy shop front which has, apparently, not been renovated for years. Those societies which have modernized the shop fronts and equipment of their branch premises have found the expenditure to be well repaid in increased trade.

The co-operative movement ought to be able to set a standard of its own in shop design. Societies need not copy the blatancy of many private traders, for co-operative loyalty renders less necessary the more aggressive forms of publicity; it should be possible to have shops which are not merely good in themselves, but which also harmonize with their surroundings. The C.W.S. Architects Departments have achieved notable success with large central stores; they might give more attention to the less exciting problems of the small shop.

An important question is how far uniformity of design and lettering is desirable in co-operative premises. This has been adopted with success in the Swedish co-operative movement; but whether it would be wise in this country to mask the essential local character of co-operative retail societies and to spread the impression, already fairly common, that co-operative societies are merely another national chain of stores, is an open question.[1] Nevertheless there can be no doubt at all that, by the development of a really good style of co-operative shop architecture, the movement can make a contribution which will benefit both the community and itself.

See Chapter 27, p. 491.

Chapter 6

CO-OPERATIVE FINANCE

The co-operative movement has been described as a consumers cartel in which nearly every kind of commercial activity has its place. The most important service undertaken by the cartel is that of retail distribution. Behind this primary service are the federal institutions, dominated by the wholesale societies, with their factories, warehouses, depots and a complex system of commercial and financial operations. The capital required to finance this vast enterprise, apart from some small exceptions to be noted later, is provided by the members of the local distributive societies. Actually, they have provided far more capital than is needed to finance the present trading operations of the movement. Retail co-operative societies are not solely trading concerns, they are also savings institutions, and co-operators are encouraged to invest their savings in their societies.

§ 1. *Capital of the Retail Societies*

The Industrial and Provident Societies Acts lay down a legal limit of £200 as the sum which each member can invest in any one retail society. With 7,500,000 members the aggregate share capital of these societies could reach a legal limit of £1,500,000,000. But that is not all the capital that could be subscribed. The £200 legal limit applies only to share capital. Many retail societies, 580 of the 1,096 in Great Britain, invite their members, and in some cases non-members, to invest in loan capital to which no legal limit is set for individual holdings, although societies with loan capital must state in their rules the maximum aggregate of investments which can be subscribed under that head. Some societies, however, fix a lower limit than £200 as the maximum individual share holding. Others pay a rate of interest lower than the customary rate on share holdings in excess of £50 or £100. Some impose a qualification that reduced rates of interest will be paid on the share capital of those members whose purchases do not reach a certain amount each year. Such restrictions are not, however, generally applied; co-operative societies encourage thrift and act as bankers for their members' savings.

The most significant fact about co-operative finance is that 99 per cent. of the share capital of the retail societies, i.e. about 80 per cent. of the subscribed capital of the movement, is withdrawable. For small sums no notice of withdrawal is necessary; for larger sums notice, varying from one week for £5 up to ten or twelve weeks for £100, has to be given. But as the majority of the individual shareholdings are less than £5, the bulk of the capital of retail societies could be withdrawn according to rule with only a few days' notification. If such a withdrawal of co-operative funds should occur, it would not affect the ultimate solvency of the societies, unless it exceeded their huge investments and reserves. This is hardly conceivable. Experience has shown that, even in conditions of acute general distress, co-operative savings are not withdrawn to any serious extent.

The total capital held by the retail societies in 1935 amounted to £198,146,861, made up as follows:

Share Capital	£135,745,524
Loan Capital	£34,007,929
Disclosed Reserves	£12,732,520
Cash balances, etc.	£15,660,888
	£198,146,861

To this must be added the value of the hidden reserves which are created by most co-operative societies. It is customary for co-operative societies to make provisions for depreciation greatly in excess of actual requirements. As a result of this policy, pursued over a period of years, many societies put the value of their buildings, fixtures and stocks in their balance sheets at strikingly low figures. Most societies generally put their disclosed values of stocks and properties much below market values. It is impossible to calculate the extent of these hidden reserves, but they represent a large amount of collectively owned capital, probably running into tens of millions. The disclosed reserves are accumulated surpluses which have not been distributed to the members.

The main source of co-operative capital is the shareholding obligation of the members. Fig. 16 shows the distribution of share holdings among the members of seven societies. The evidence of co-operative officials supports the view that this sample distribution is typical of the whole movement.

From this sample it might appear that about one-quarter of the members are not sufficiently interested in the affairs of their societies to invest the necessary £1 share to obtain the full rights of membership. But it should be remembered that many of these, especially during a period of expansion, are new members who are each accumulating their £1 shares. It is usual for members to join a retail society by the payment of 6d. or 1s. and then to allow their dividends on

FIG. 16

MEMBERS' HOLDINGS OF SHARE CAPITAL IN SEVEN RETAIL SOCIETIES, 1935.

	Per cent.
Under £1	28
£1 and under £2	19
£2 „ „ £3	8
£3 „ „ £4	4
£4 „ „ £5	3
£5 „ „ £10	8
£10 „ „ £20	7
£20 „ „ £30	4
£30 „ „ £40	3
£40 „ „ £50	2
£50 „ „ £100	6
£100 „ „ £150	4
£150 „ „ £200	2
£200	2
	100

purchases to accumulate until they have invested £1. The time which is needed to accumulate £1 in this way depends on the purchases of the new members and the rate of "divi" they receive. These two factors vary throughout the country, but it generally takes from six to eighteen months on the average. Some societies permit their members to withdraw part of their dividends before the minimum shareholding is obtained; in these societies the period required to accumulate a £1 share may be longer. Some members allow their dividends to accumulate over a period of years until the maximum of £200 is obtained. It is rather unusual for members to make deliberate investments of large sums at one time in their societies. In the sample

distribution above, it may be taken for granted that the 62 per cent. of the members who have each a shareholding of less than £5 have not invested any part of it other than by the method of accumulation; and a large part of the other members with shareholdings of more than £5 have followed the same practice.

The term loan capital is applied to various funds which rank as capital in the retail societies' balance sheets. The aggregate amounts at the end of 1935 are shown in Fig. 17.

There are several reasons why retail societies obtain capital by loan investments in addition to their share capital. Sums in excess of £200 can be invested in loan capital by members who have larger sums to invest; societies can also obtain loan capital from non-members, and in some districts tradesmen and farmers, and even

FIG. 17

LOAN CAPITAL OF RETAIL SOCIETIES

Invested Loan Capital	£21,291,256
Savings Bank deposits	£5,631,546
Employees' Pension and Thrift Funds ..	£5,406,193
Bank Overdrafts	£529,181
Miscellaneous Funds	£1,149,753
	£34,007,929

private shopkeepers, find the local society a convenient institution in which to place their money, although they have no desire to become trading members; finally, as loan capital earns a lower rate of interest than share capital, the retail society can usually make profitable use of the former.

The declared reserves of retail societies amount in the aggregate to £12,732,520. The largest item here is the total of general reserve funds of over £7,000,000. The rest is made up of insurance funds and special contingency reserves. The reserves do not increase the value of the shares. A member can only take out of a co-operative society the capital he has paid in; he has no claim on the reserves, which are a form of collective capital. Hidden reserves increase this collectively owned capital.

According to the returns of assets and liabilities, the capital used to finance the trading operations of retail societies in 1935 amounted to £77,590,380. This was the disclosed value of properties, stocks,

fixtures, machinery and other capital goods. The trade conducted on this capital amounted to £220,429,517, and the net surplus, including interest on share capital, resulting from that trade was £26,746,054, equal to 13·5 per cent. of the total capital and 34 per cent. of the trading capital.

The capital needed to finance the trading activities of the retail societies is only a part of their total capital. In 1900, £19,000,000 or 80 per cent. of the total capital was so used, and £5,500,000 or 20 per cent. was invested. The percentage of the total capital, including reserves, needed to finance the trading operations of retail societies in 1935 was only 40 per cent., and 60 per cent. was invested. In figures, £77,590,380 was employed by the societies, and £120,556,481 invested outside. It is clear that a centralization of this surplus capital of over £120,000,000 should enable the co-operative movement greatly to expand co-operative enterprise. The value of such a co-ordination of capital is fully understood, and 70 per cent. of the outside investments of retail societies have been placed in other co-operative undertakings, mainly in the wholesale societies. The total sum invested by retail societies in other co-operative undertakings is £86,910,600. The amount of capital thus used to finance other co-operative enterprise, usually of a federal character, exceeds the amount used to finance the trade of the retail societies. A large part of this sum is invested in the wholesale societies, particularly the C.W.S., which again reinvests 89 per cent. of its total capital.

The share and loan capital of the wholesale societies, held by the retail societies, amounts to £83,243,600. In addition the majority of retail societies hold shares in productive and federal societies, amounting to £3,667,000. These two sums account for the total of £86,910,600 invested in other co-operative enterprises. The remaining £33,645,881 includes investments in government and municipal stock, in house and other property and mortgages, and in non-co-operative industrial concerns. In some cases, societies, actuated by a spirit of local patriotism, have invested in local commercial undertakings in which their members are employed. This is true of some societies in Lancashire which hold shares in local cotton mills. No analysis of these outside investments is available; but for the sake of clarity all of the £33,645,881 is assumed to be invested outside the co-operative movement, although it is doubtful whether loans to members to enable them to buy houses should be so defined.

§ 2. *Income from Retail Societies' Investments*

The total income accruing to retail societies from their investments cannot be accurately calculated from the available figures. Share and loan interest received from investments in the wholesale societies amounted in 1935 to about £2,500,000; and about £150,000 was received from investments in productive and federal societies. The net income from investments in government and municipal stocks and other non-co-operative funds was at least £1,000,000, assuming the average rate of interest on these investments to be about 3 per cent. This estimate gives a total income from investments of £3,650,000—about £1,850,000 less than the sum required to pay interest on the total share and loan capital of the retail societies.

A retail society which covered the interest payments on its share and loan capital by the income it received from its investments would be in a very happy position. It would have no interest charges on its trading operations and one item in retail costs would thus be eliminated. The retail societies' statistics do not reveal how closely this advantageous position is reached. The prevailing low level of interest rates is frequently advanced as the reason for the deficit of £1,850,000 between interest received and interest paid out. The real reason is that only a part of the capital of retail societies is invested, and the interest received on that part is not sufficient to pay interest on all the subscribed capital. The large funds held by retail societies are certainly not a burden, as is sometimes assumed. In fact some societies gain a net income from their surplus capital. With the average rate of interest on share capital at 3½ per cent., and on loan capital at 3 per cent., interest payments in 1935 were about £5,500,000. It can be assumed that the £77,600,000 employed to finance the trade of the retail societies was taken from the share capital and therefore had to earn £3,500,000 for interest payments, leaving £2,000,000 to be provided by income from investments. But investments realized £3,650,000. The position can be explained another way. The difference between income received from investments and interest payments to share and loan holders is approximately £1,850,000. This sum represents net capital cost on the trading operations of the societies: 0·84 per cent. on the trade turnover of £220,000,000 and 2·4 per cent. on the capital employed in trade. There are very few trading concerns which operate on such low capital expenses.

§ 3. *The Capital of the Wholesale Societies*

We have seen that the Co-operative Wholesale Society and the Scottish Co-operative Wholesale Society have extensive financial operations somewhat similar to those of investment trusts. Retail societies put most of their surplus capital in these two institutions. The financial dealings between the wholesale societies and the retail societies contribute largely to the trading and financial strength of the co-operative movement.

To prevent confusion the operations of the two wholesale societies will be discussed separately. The retail[1] societies in England and Wales, with very few exceptions, are members of the C.W.S., from which they purchase most of their supplies. As a condition of membership they have to "take up not less than one £5 share for every two (individual) members".[2] These shares are transferable only, and need not be fully paid on the society's admission to membership, but no interest can be withdrawn until the shares are paid up. At the end of 1935, £13,017,445 had been paid into the share capital account. In addition to subscribing the share capital of the C.W.S., the retail societies place much of their surplus funds in the C.W.S. deposit and loan accounts. The items that make up the loan account can be best explained by reference to the sums paid in and withdrawn in 1935. The trade dividend—i.e. dividends on purchases from the C.W.S. in the previous year—amounted to £1,808,821; interest on share capital £527,000; interest on loan capital £167,270; a total of £2,503,091. These sums, due to be paid to retail societies on their transactions in the previous year, were credited to their loan accounts. £1,735,872 was withdrawn. Sundry cash items arising from trading transactions, amounting to £168,408, were added, making the net sum credited to these loan accounts £935,627. The loan accounts, therefore, consist of payments due to retail societies on their trade with the C.W.S. and on their holdings in the C.W.S. These payments can be withdrawn or allowed

[1] Several agricultural, productive, and foreign co-operative societies are also members of the C.W.S. (see Chapter 7). The financial relations of these societies with the C.W.S. are of much less importance than those of the retail societies, and their investments in the C.W.S. have been calculated as investments made by the retail societies for the purpose of this discussion. Their exclusion would make only a minute difference in the figures.

[2] This applies to new members only. The rules have been altered from time to time and the shareholding obligation differs according to the date of entry.

to accumulate. In 1935 the £935,627 not withdrawn brought the total of loan accounts to £6,006,098.

Deposit accounts are the sums placed in the keeping of the C.W.S. by the retail societies; they amounted to £54,237,050 at the end of 1935. These deposits can be withdrawn. They provide retail societies with a simple, profitable and fluid form of investment. Simple, because orders and payments for goods, requests for services, and payments received on trading transactions, all go to and come from the same address—the headquarters of the C.W.S.—and it is easy for a retail society to work with one institution which supplies goods and services, accepts cash deposits and provides one set of accounts for all these transactions. Profitable, because the C.W.S. makes arrangements for the retail society to place its money at the end of each day's working in a local branch of a joint stock bank and pays interest on it. Fluid, because its deposit accounts with the C.W.S. can be withdrawn to meet any financial contingency, and what is more, the C.W.S. will provide additional financial assistance to meet unexpected difficulties.

The main financial department of the C.W.S. is the C.W.S. Bank. The methods and operations of the C.W.S. Bank are described in Chapter 7: here it is sufficient to say that the deposits of retail societies mentioned above are deposits in the C.W.S. trade department, and not in the C.W.S. Bank. The Bank eventually becomes the custodian of these sums, but they are placed in a special deposit account credited to the C.W.S. trade department. The C.W.S. takes the responsibility of paying a fixed rate of interest on these deposits. If the Bank is unable to invest them to obtain a return sufficient to cover the fixed interest, the difference has to be made good by the trading side.

The retail societies in Scotland have a somewhat similar arrangement with the Scottish C.W.S. Interest and dividends on purchase due to retail societies are credited to their deposit accounts. These amounts can be added to by cash payments, or they can be withdrawn. In 1935, £1,266,143 was paid in by societies; and £68,646 in interest on shares, £208,446 in interest on deposits, and £385,841 in dividends on purchases were credited to societies' accounts. The amount thus accruing was £1,929,076; £1,258,996 was withdrawn, leaving the total deposit account at £8,176,323. The Scottish C.W.S. has two other deposit accounts; one for societies that are not members of the

Scottish C.W.S. and the other for individuals. Non-members' deposits amounted to £2,417, and individuals' private deposits to £997,962. The S.C.W.S. has not a banking department. Its surplus capital is invested in co-operative undertakings and in government and other gilt-edged securities.

The wholesale societies are thus the investment houses of the movement. They collect and use the surplus capital of all societies, and as the movement is a thrift and savings institution, its funds are large and for ever increasing.

We can now summarize the joint financial position of the C.W.S. and the S.C.W.S. in 1935. The share, loan and deposit capital of the wholesale societies amounted to £82,241,563. All of this was provided by other societies, with the exception of the £997,962 invested in the Scottish C.W.S. by individuals. It was made up as follows:

C.W.S. Share Capital	£13,017,445
S.C.W.S. Share Capital	£1,804,267
C.W.S. Loan and Deposit Capital ..	£60,243,148
S.C.W.S. Loan and Deposit Capital ..	£9,176,703
	£84,241,563

In addition, the reserves of the wholesale societies, including C.W.S. Bank funds, amounted to £47,327,685, making their total capital £121,569,248. The capital needed to finance their trading operations, excluding loans from societies, was £13,081,776 or 11 per cent. of their total capital. The remainder was reinvested.

The extent to which the wholesale societies are used as investment trusts can be judged from these figures, taking 1935 as the present instance: £108,487,472 or 89 per cent. of their total capital, including the funds of the C.W.S. Bank, is reinvested. The C.W.S. has £4,216,481 invested in the English and Scottish Joint C.W.S., and £21,000 in the Co-operative Insurance Society; the S.C.W.S. figures are £1,194,357 and £5,380 respectively, making a total of £5,437,218. Only £93,500 is invested in other co-operative undertakings, i.e. productive and federal socieites. Trade investments in non-co-operative commercial undertakings amount to £787,500. The S.C.W.S. has £9,250,000 invested in gilt-edged securities. The remaining investments are made by the C.W.S. through the C.W.S. Bank. They are as follows:

British Government, Indian, and Irish Land Stocks	£65,272,205
British Municipalities, Railways, etc.	£10,864,118
Colonial and Foreign Government and Railway Securities, etc.	£4,568,569
	£80,704,892

In addition, Treasury Bills, Municipal Loans, and money at call and short notice, the short-dated investments of the Bank, amount to £9,637,254. Overdrafts and advances to societies and other customers of the Bank amount to £2,577,108. These sums bring the total Bank investments to approximately £92,919,254. Part of this, however, is money deposited in the Bank by individuals, trade unions, and other institutions which are not co-operative societies, and advances by the Bank to this group of customers. It also includes bank balances and cash in hand, a sum of £2,100,000. The part which is reckoned as retail societies' capital reinvested by the Bank is the sum of their deposits in the C.W.S., and advances from the Bank which rank as capital in their (i.e. retail societies') balance sheets. This amounts to £73,508,500.

§ 4. *Capital of the Productive and Federal Societies*

The productive societies are financed jointly by retail societies, individual shareholders, and workers employed by the societies. The proportion of the capital held by retail societies was about £901,500 at the end of 1935. The local federal societies are financed solely by consumers' societies.[1]

The two groups together have an aggregate capital of approximately £6,800,000, of which £2,000,000 is reserves. The capital employed in the trade of these societies is estimated to be about £4,000,000, and about £2,800,000 is invested. The surplus capital is invested in the wholesale societies, in other productive societies, in house property, and in government and municipal stocks.

[1] The C.W.S. is a shareholder in two local federal societies, and the S.C.W.S. is a shareholder in two Scottish federals.

§ 5. *The Financial Position of the Movement*

We can now summarize the financial operations of the co-operative movement. The total capital invested in retail societies by individual members is £169,753,453. In addition individuals have invested approximately £1,750,000 in productive societies and the Scottish C.W.S. This sum of individuals' shareholdings has been added to by the accumulation of reserves in retail societies, by investment in wholesale societies, which have also accumulated reserves, and by investment in other undertakings, until a total capital has been reached of £229,605,508. Yet by the rules laid down in the Industrial and Provident Societies Acts, a £1 share in a co-operative society cannot increase in value. The rate of interest is fixed, and any surplus above interest on capital and reserves is distributed not to capital but to the members on their purchases. The aggregate accounts of all co-operative undertakings shows that £94,672,156 of all capital and reserves is used to finance co-operative trade, and £134,933,353 is invested outside the movement. The former figure is the sum of the capital items employed to finance the trading activities of all retail, wholesale, productive and federal societies. The latter figure is the sum of their investments in non-co-operative enterprises. The co-operative movement therefore is not only a trading concern, for 58·7 per cent. of its financial resources are invested in non-co-operative funds, principally in gilt-edged securities. The facts are summarized in Fig. 18.

These figures are not complete, however, for no reference has been made to the Co-operative Insurance Society. The C.I.S. is worked on a nominal capital of £26,250. The assets exceed £20,000,000. The normal practice of insurance investments is followed, but the financial assets arise from premium income and not from capital invested by co-operative societies. The finances of the C.I.S. should be included in the resources of the movement, but in view of their special nature it would be difficult to include them except by reference to some necessary but confusing qualifications. For the C.I.S. does not make profits for the movement. Its profits are returned to the policy holders. Its reserves are, in the main, held to cover insurance risks, and are not all available for more or less permanent investment in trading enterprises.[1]

[1] See Chapter 8.

FIG. 18

THE AGGREGATE CAPITAL OF THE CO-OPERATIVE MOVEMENT, 1935

(1) Societies	(2) Total Capital	(3) Employed in Trade	(4) Per cent.	(5) Invested in Co-operative Undertakings	(6) Per cent.	(7) Invested Outside the Movement	(8) Per cent.
	£	£		£		£	
Retail Societies	198,146,861	77,590,380	39·1	86,910,600	43·9	33,645,881	17·0
Wholesale Societies	121,569,248	13,081,776	10·8	(*a*) 7,500,000	6·2	100,987,472	83·0
Productive and Federal Societies	6,800,000	(*b*) 4,000,000	58·8	(*b*) 2,500,000	36·8	(*b*) 300,000	4·4
TOTALS	326,516,109	94,672,156	—	96,910,600	—	134,933,353	—
ADJUSTED TOTALS (*c*)	229,605,509	94,672,156	41·3	—	—	134,933,353	58·7

(*a*) = Includes loans and advances to societies.
(*b*) = Estimated.
(*c*) = Corrected for duplication.

Fig. 18, showing the aggregate capital of the movement, requires some explanation. Column 2 gives the total capital—shares, loans and reserves—of each group of societies. In column 3 are the amounts of capital employed by each group. In column 5—capital invested in co-operative undertakings—the sum of £86,910,600, the amount invested by retail societies, is divided among the wholesale societies and productive and federal societies, and appears again in column 2 in the capital of those two groups. Similarly, some of the capital of the wholesale societies is invested in productive and federal societies, and vice versa. Consequently the total of these investments in the movement does not give the sum of the capital employed in co-operative enterprise. It is necessary to deduct these duplications in order to obtain a more correct figure of the total capital of the movement. The adjusted total of column 2 represents, therefore, the capital subscribed by the members of the retail societies and by individual shareholders of the S.C.W.S. and by productive societies, plus the reserves accumulated by all the societies. The total of column 3 is the amount of capital used to finance the trading operations of the movement as a whole.

Chapter 7

THE WHOLESALE SOCIETIES

§ 1. *The Members*

The basic structure of the wholesale societies has changed little since their inauguration seventy years ago. They were created to serve the needs of the retail societies, originally as wholesale agents; but with the growth of the movement they have extended their operations into nearly every field of commercial activity.

Membership of the wholesale societies is restricted to incorporated co-operative organizations, except that, in the case of the S.C.W.S., individuals also may become shareholders. These organizations need not, however, have been incorporated under the Industrial and Provident Societies Acts. The decision as to whether a new member shall be admitted rests with a general meeting of members, that is, a meeting of the representatives of the shareholding societies, which bases its decision mainly on the objects of the candidate for election. A concern may be co-operative in principle, although it is registered under the Companies Acts; on the other hand, there are many organizations registered under the Industrial and Provident Societies Acts the objects of which are completely unacceptable by the consumers' co-operative movement.

Membership is not confined to consumers' societies; productive societies, agricultural societies, and various overseas co-operative societies are in membership with the C.W.S. and S.C.W.S. At the end of 1935 the membership of the C.W.S. consisted of 882 retail societies, 97 agricultural societies, 4 productive societies, 22 overseas societies and 47 of a miscellaneous nature (e.g. federal societies and societies formed for a special purpose, such as the maintenance of convalescent homes). The total membership was thus 1,052. In addition, 66 non-members made purchases from the C.W.S. These non-members are, however, mostly agricultural societies; only a small number of retail societies in England and Wales, transacting a very small amount of trade, are not members of the C.W.S.

The membership of the Scottish C.W.S. comprises a somewhat similar grouping; 211 retail, 6 agricultural, 7 productive, 1 overseas, and 15 miscellaneous societies. Among the non-member societies

purchasing from the S.C.W.S. are Aberdeen Northern Society and Dundee Society, two of the largest retail societies in Scotland. The question of these two societies frequently arises in discussions in Scotland, for they prefer to act independently of the movement. They are not members of the Co-operative Union; the Aberdeen Society withdrew in 1918 as a protest against the formation of the Co-operative Party. Apart from these two notable exceptions, and a handful of small and relatively unimportant societies, the retail societies in Great Britain are members of their appropriate wholesale society.

The relationship between the wholesale societies and their members is not unlike that existing between a retail society and its members. Members of a wholesale society share in its government; they receive a dividend on purchases; they provide the capital, on which they receive a limited rate of interest; and they are not compelled to restrict their trading to the wholesale society. This is an important aspect of co-operative organization. The wholesale societies depend on the goodwill of the retail societies for their trade. They are restricted by rule to sell only to retail societies, but they cannot force retail societies to buy their goods.[1] Thus they have to compete with capitalist concerns in selling goods to co-operative societies. On the other hand there is an element of loyalty in co-operative trading which works to the benefit of the wholesale societies.

Shareholding in the S.C.W.S. is not confined to societies; individuals may also be shareholders, the maximum individual holding being £200. Employees of the S.C.W.S. also can take up shares. Each holding must be at least £10, which may be paid in instalments. Employees have invested £61,218 or 0·5 per cent. of the total share and loan capital of the society, and other individuals hold £936,750 or 8·5 per cent.

The most important source of capital of the wholesale societies is by way of loans and deposits from co-operative societies. The rate of interest at present (1936–7) paid on these varies between 3 and 4 per cent. Non-members receive about one-half of one per cent. less than these rates. Only a negligible portion of the total loans and deposits is held by societies that are non-members.

[1] This rule is relaxed to enable by-products of the C.W.S. or S.C.W.S. factories to be sold to merchants and manufacturers, and also to permit the sale of goods to public authorities.

§ 2. *Control and Management*

Both the C.W.S. and the S.C.W.S. are owned and controlled by their member societies. Control is democratic, the directors being nominated and elected by the shareholders, but the voting strength of the members is determined by their purchases from the wholesale society, and not by the amount of shares they hold. In the C.W.S. each member society has one vote in virtue of membership, one additional vote for the first £10,000 worth of goods purchased from the C.W.S. in the previous year, and one further vote for each succeeding £20,000 worth of purchases. The method adopted by the Scottish C.W.S. is rather more complicated. Here also one vote is granted to each member society in virtue of membership. The society with the largest amount of purchases from the S.C.W.S. in the previous year is allotted a further forty-nine votes, making fifty in all. No society can hold more than fifty votes. The remaining societies are then allotted votes according to their purchases, the ratio being fixed by the forty-nine votes given to the highest purchaser.

The member societies can appoint delegates to the quarterly meetings of the wholesale societies to the same number as they have votes. These quarterly meetings correspond to the members' meetings of a retail society and somewhat similar business is transacted. The directors present their report, attached to which is a fairly detailed statement of trading results. The report is discussed and criticisms and suggestions come from the assembled delegates. There are, however, two marked differences between the quarterly meetings of the wholesale societies and those of the retail societies. In the former case the report is more detailed, giving far more information than is found in the directors' reports of joint stock companies, or even in the reports of retail societies, and the discussion is better informed and usually far more constructive.[1]

To facilitate the organization of meetings, the C.W.S. area is divided into eight divisions. Every quarter a meeting is held in each division, not necessarily always at the same place, except in the case of Manchester, London and Newcastle. These divisional meetings are all held on one day, and are followed, a week later, by a final meeting at Manchester. Delegates may attend any one divisional meeting or the final meeting, but not both. All votes cast at divisional and final

[1] See Chapter 17, § 1.

meetings are added to ascertain the voting on any proposal. Owing to the splitting up of the representatives in this manner, special arrangements are necessary for dealing with amendments and motions for adjournment, but otherwise business at these meetings is carried on in a normal way. More than 2,000 votes are usually cast at C.W.S. meetings.

The quarterly meetings of the S.C.W.S. are by rule divided between Glasgow and Edinburgh. The March and September meetings review the half-yearly balance sheets, and are more important than the interim June and December meetings. The March and June meetings are held in Glasgow and the September and December meetings in Edinburgh. Unlike the C.W.S. the Scottish organization does not hold district quarterly meetings. There is only one meeting each quarter and that serves the whole of the area covered by the S.C.W.S. The alternation between Glasgow and Edinburgh, however, goes some way to meet the convenience of the constituent societies.

An interesting feature of the democratic control of the S.C.W.S. is the place given in the system to its employees. The conditions attached to shareholding by employees are that each applicant for shares must be a bona fide purchasing member of a constituent retail society, and that the employee-shareholders shall form a special society which takes its place in the general federation of constituent societies. The S.C.W.S. Employees' Shareholding Association, as the special society is termed, has to meet prior to each quarterly meeting of the S.C.W.S. and appoint delegates to attend. Each constituent society is entitled to a delegation equal to the number of votes it has been allotted. In the case of the Employees' Shareholding Association, which has no purchasing qualification, one delegate is allowed for every 150 members. The number of members is 580, which entitles the Association to three delegates. The expenses of the Association are borne by the members, who each pay 6d. per year for the purpose. The association has the right to raise any matters affecting the working of the S.C.W.S., but it usually confines itself to issues connected with the welfare of the employees. In fact, although it might be expected to keep the employees' interests to the fore, it very seldom utilizes its right to do so. Labour questions are left to negotiation between the trade unions concerned and the S.C.W.S. Board. Membership of a trade union is a condition of employment; therefore any griev-

ances, complaints, and disputes are quickly reviewed by the unions and are soon under discussion with the directors.

The machinery provided for the expression of opinion by members of the wholesale societies is quite adequate for its purpose. Members may bring any matter connected with the business of the societies before the meetings after due notice. The balance sheets and reports are extremely comprehensive documents, giving details relating to every works or group of works, as well as to the activities of the societies generally. In practice, the machinery is not used to its fullest possible extent. The most prominent items at quarterly meetings are usually enquiries, raised on the report, and therefore less formal than if they were raised on the agenda under the special provisions contained in the rules. These general meetings serve rather to maintain and act as a check on the efficiency of the societies than to govern them. This statement has to be modified by the fact that the directors, although given wide powers by the rules, submit matters or recommendations of a controversial nature to the meetings.

The directors of the wholesale societies are not elected at the quarterly meetings. They are nominated by the committees of management of the member societies. Candidates for the Board are voted upon by these committees, the number of votes allotted to each society being based on their purchases as mentioned above. Voting is conducted by post on the proportional representation method.

The rules relating to elections are very strict on the subject of canvassing. Each candidate aspiring for election to the C.W.S. Board is allowed to submit a 300-word letter and a photograph, and no more. No society may have more than one of its members on the Board. Directors of the C.W.S. must be under fifty years of age at the time of nomination and must retire at the age of sixty-eight. They receive a commencing salary of £750 a year, rising to £1,000 at the end of four years. The term of office is four years, after which they are eligible for re-election. Re-election is in practice automatic until the retiring age is reached, and no director in recent years has failed to be re-elected.

The C.W.S. Board appoints its own chairman and also the secretary, who is a paid official of the society. At present the Board consists of twenty-eight directors, fourteen elected from nominations by

societies in the Manchester district, six from the Newcastle district, and eight from the London district.[1]

The full Board is expressly required by rule to deal with matters raised on reports from the committees and sub-committees. These matters are:

(1) The purchase or sale of land and buildings.
(2) Investments (except day-to-day investments, which the Finance Committee is empowered to make).
(3) Any mortgage or charge upon any part of the assets of the Society.
(4) Raising capital.
(5) New ventures.
(6) Expenditure on capital account beyond the limit fixed by the Board.
(7) Working arrangements with competitors.
(8) Replacements of assets, whether on capital or revenue account, involving a sum over and above a limit of expenditure to be fixed by the Board.
(9) Appointment of foreign deputations.
(10) Appointment of salaried staff, whether new appointments or promotions, and including normal increases in staff salaries over a sum to be determined by the Board.

Apart from these matters it is empowered to delegate its powers to sub-committees and this is done to a considerable extent (*see* Fig. 19). The full Board meets weekly. Meetings are held in the three main C.W.S. centres, Manchester, London and Newcastle, in accordance with the following rota: Manchester (3 successive weeks), London (1), Manchester (1), Newcastle (1), Manchester (1), London (1). Thus it meets once in eight weeks at Newcastle and twice in eight weeks at London. This arrangement was adopted because, although the administrative centre at Manchester offers the greatest facilities, it was felt necessary to keep in touch with the depots and factories grouped around the other centres. In the case of London, the fact that the C.W.S. Board is represented on several organizations having headquarters there provides an additional reason.

[1] A special committee appointed by the C.W.S. shareholding societies has recently (1937) recommended a change in this arrangement, in order to ensure that all districts shall have an interest in the election of the national directorate. The suggestion is that a selective process shall be established whereby each of a number of districts shall, by means of an election conducted within its own area, elect two, three or four candidates (according to the size of the district) whose names will then be submitted to the whole of the electorate throughout the country in an election conducted nationally. This recommendation has been accepted by the shareholders' meetings.

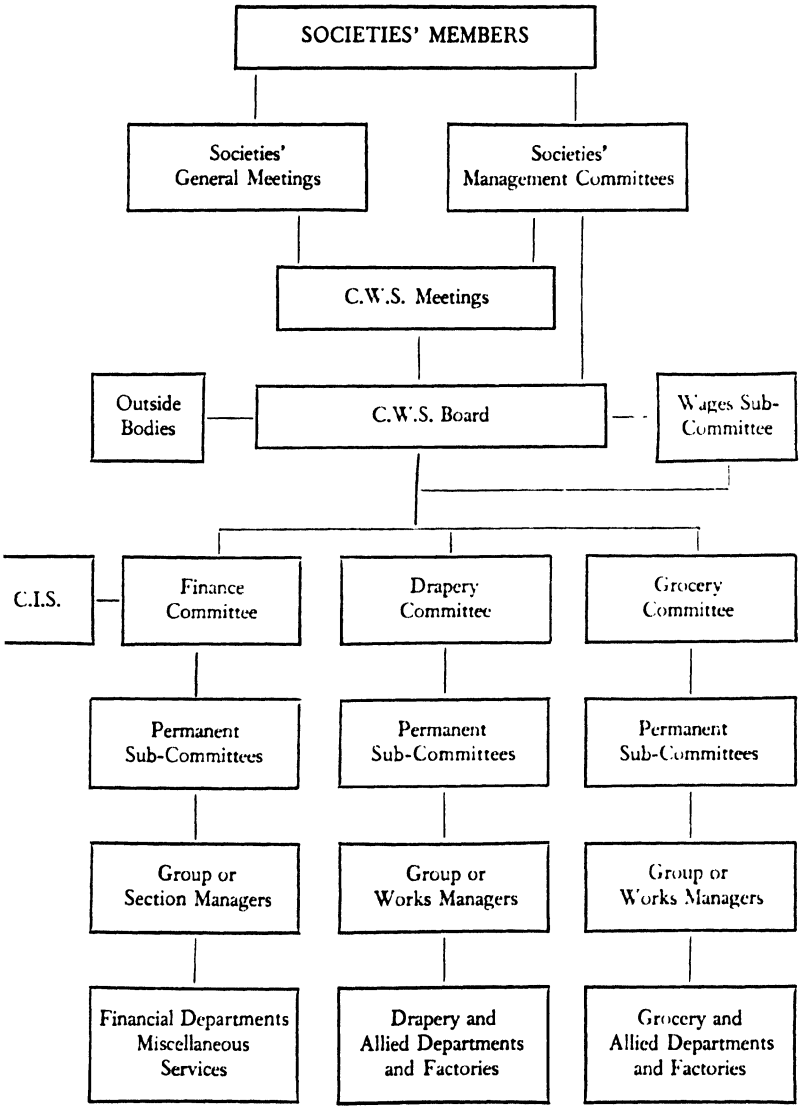
The Board is divided into three main committees, Finance, Grocery and Drapery, and the day to day duties of management are performed by two permanent sub-committees of each of these main committees. A composite sub-committee drawn from each of the main committees deals with wages and all labour questions not reserved for determination by the Board. The minutes of the main committees are submitted to the Board in the week following the committee meetings. Minutes of the main committees relating to wages and similar matters are submitted to the Wages Committee. The Wages Committee thus acts as a co-ordinating agent. The C.W.S. Board acts as an executive body to a much greater extent than is usual with the administrative bodies of concerns of a similar size. Until 1929 a system of routine visitation was in force, whereby individual directors were responsible personally for visiting and supervising specified works or depots. This arrangement did not prove entirely satisfactory, and a system of permanent sub-committees was substituted, in order to relieve the main committees of work and to increase the possibility of specialization. The sub-committees are responsible to the main committees for works and departments in their charge. There are also a number of special, and usually temporary, *ad hoc* committees appointed to deal with new enterprises or specific administrative duties. The need for relieving the committees of work led also to the development of a system of group management, whereby one manager was made responsible for all the C.W.S. works in a particular branch of industry. This system has, of course, also economic advantages, and it is still being extended.

The difficulties of managing a concern with activities as varied as those of the C.W.S. are obvious, and owing to the volume of executive work which is undertaken, considerable stress has to be laid on routine. The structure thus tends to be rather rigid, with consequent loss of personal contact with the works and departments. Fig. 19 illustrates this point. In practice, of course, these channels are not always used, but the diagram illustrates the method by which formal instructions and resolutions are passed.

The method of control is somewhat similar to that of a municipal authority. The sub-committee responsible for a group of factories and departments meets regularly to discuss their administration and policy. Decisions are reported for confirmation to the appropriate main committee. If the sub-committee's decisions are confirmed by the main

FIG. 19

CONTROL AND MANAGEMENT OF THE C.W.S.



NOTE.—The C.W.S. is represented on many outside bodies, including the New Zealand Produce Association, Ltd., Manchester Ship Canal Co., Ltd., and many co-operative organizations and federations.

committee they are reported to the full Board for final confirmation. In normal circumstances no important decision can be implemented until it has been approved by the Board. In exceptional circumstances a decision may be implemented before it has had time to get to the Board, in which case it has to be ratified before it can become a permanent measure. It may be argued that this rather complicated machinery of government delays the execution of business. In practice this need not happen. The business to be transacted by a sub-committee consists mainly of the consideration of reports from the managers of factories and departments. A manager reports regularly, sometimes weekly, and his report deals with the trading results of his factory or department and with proposals for extending business, new enterprises and other matters on which he requires the approval of the committee. Even in a personal business, where the owner is the entrepreneur, many matters have to be thought out very carefully before they become the practice of the concern. A C.W.S. department which desires to put down new plant, or to introduce a new enterprise, need not take longer over the matter than any other form of business organization. The plans are presented to the appropriate sub-committee, which will probably have a week to study them before the manager attends a meeting of the sub-committee to discuss the matter. If the plans have been carefully prepared and are backed by full information, there should be no delay in obtaining the consent of the sub-committee to put them before the main committee and the Board. If the plans involve capital expenditure they have to be submitted also to the Finance Committee for approval. This step is necessary to co-ordinate and govern investment policy. But approval at this stage is not normally withheld, provided the main trading committee strongly supports the venture. When the proposal comes before the Board, backed by the sub-committee, main committee and Finance Committee, its approval is often automatic. The matter will have thus been under discussion in one committee or another for three weeks or a month. In the course of these discussions any apparent weakness or any divergences from the common policy of the society would have been noticed. Many proposals, some involving large expenditure on new plant, take no more than three weeks to receive the final approval of the Board. Others have been known to take several months, for the procedure is to refer back to the sub-committee which first dealt with it any proposal which fails to receive approval

at any stage in the proceedings. It is then sent back to the manager with the reasons for withholding approval, and he has to modify his plans to conform to the views expressed by any of the committees or the Board.

The main criticism of this proceedure is not the time that may be taken in coming to a decision, but the absence of machinery to promote and guide a comprehensively planned development of trading activities. A few developments are initiated by the Board or committee; and entirely new enterprises are normally initiated by them. There is, however, very little planning on a big scale to provide for new industries and new methods of trading. Such developments as have occurred have been in lines in which the demands of the retail societies have made expansion necessary. There have been very few enterprises initiated in anticipation of the demands of retail societies. Developments in trades in which the wholesale societies are already engaged are usually initiated by the managers of productive plants or departments. There is, however, constant discussion among managers, officials and directors throughout the movement and ideas for new or improved activities are thus constantly arising over a wide field.

The government of the Scottish C.W.S. follows a similar plan, although the actual constitution of committees differs in detail from that of the C.W.S. The S.C.W.S. is governed by a Board of Directors, twelve in number, including the President and the Secretary. In contrast to C.W.S. practice, both of these officials are nominated and elected by the member societies. Each director (and the President and Secretary) is elected for a period of two years. The President and Secretary receive a salary of £650 per annum each, and the other directors receive £500. All are eligible for re-election, and in practice re-election is automatic until the retiring age. The Board has three sub-committees, each consisting of four members, and for this purpose the President and Secretary act as ordinary members of the Board. Each is assigned to a sub-committee as an ordinary director. The President, however, has the additional right to sit on each of the sub-committees in an *ex officio* capacity. In practice he seldom exercises that prerogative. The Secretary, by virtue of his office, may often be called in to either of the two sub-committees of which he is not a member. The day-to-day administrative work is conducted by these sub-committees.

A director serves on a sub-committee for four years, and then

moves to another. Each sub-committee is so organized that it provides for the exercise of four distinct individual functions. For instance, of the four members of the Finance and Property Committee, two are responsible for financial and two for property matters. One of the two financial members is officially styled the finance convener. He acts as chairman of the sub-committee when it deals with matters that come within his province, and he is responsible to the Board, on behalf of the sub-committee, for those matters. The other financial member acts as his assistant. The two members whose special province is property function in a similar manner. One is the property convener, and takes the chair when the sub-committee deals with property matters. The other is the convener's understudy and assistant. The Grocery Sub-Committee and the Drapery and Furniture Sub-Committee deal with all matters affecting the departments, whether productive or distributive, which come under their control. Each of these two trading committees has a convener who is responsible for the distributive departments, and a convener for the productive works; and each convener has his assistant. Each convener serves only a year in that post. He is followed by the director who has been acting as understudy or assistant convener during the year.

The full Board is, of course, responsible for the preparation and direction of general policy. The final authority is the meeting of shareholding societies; but the meetings are in the main concerned only with policy in its widest aspects. Interpretation must always be the function of the directors. The full Board, too, has to ratify the decisions of the sub-committees before they can become operative.

The directors of the S.C.W.S. are not, like those of the C.W.S., elected on a geographical basis. The only limitation is that no society can have more than one director on the Board at any time. In practice, however, when a vacancy occurs owing to the death or retirement of a director, the societies invariably elect the new director from the district from which the previous one came, provided, of course, that a suitable man is available.

The persons elected to be directors of the wholesale societies are outstanding members of the local committees or paid officials of local societies. Nominations are in practice made from a selected group. Similarities of experience and training within this group make geographical representation unnecessary; and yet it is in some ways desirable. In the C.W.S. the extensive nature of the enterprise and

the differences that exist in co-operative affairs in different parts of England and Wales have been held to make geographical representation essential. In the S.C.W.S. those conditions do not exist to the same extent; but in spite of the lack of rules to enforce election on a district basis, the sense of the member societies works in that direction. Geographical representation in this type of democratic business enterprise has much to commend it, so long as it is not so rigidly applied as to prevent the most capable men being elected to the highest posts.

It is interesting to examine the previous occupations of the directors of the wholesale societies. Of the twenty-eight directors of the C.W.S., in 1935, eleven were secretaries or managers of retail societies, two are ex-M.P.s, four were school teachers; the remainder were, respectively, a minister of religion, an official of the C.W.S., a political organizer for a retail society, an official of the Insurance Society, an official of the Co-operative Union, an official of an agricultural marketing society, an Inland Revenue official, a school attendance officer, a commercial traveller, and two engineers. Of the two ex-M.P.s one was also a trade union official and the other had previously been a clerk in the offices of a local authority.

Three of the twelve directors of the Scottish C.W.S. were managers of retail societies prior to their election to the Board. The other nine include a former trade union organizer, an engineering draughtsman, a journalist who had also been an M.P., a compositor, a tailor, an insurance agent, a miner, an assistant manager of a linen factory, and a manufacturer's buyer.

With one exception, the twenty-six directors of the two societies who were not drawn from the ranks of officials of retail societies, were members of committees of management of their retail societies. The directors, therefore, are a combination of representatives of the consumers and representatives of the official side of the trading organizations that directly supply the consumers. Consumers' control is the dominant feature of the wholesale societies. The directors are in the main representatives of the consumers. To that extent they adequately fill the part they have to play. But under the existing constitutions of the C.W.S. and the S.C.W.S. they have to do more than govern the policies of the concerns. They are also called upon to undertake a large measure of detailed administration, and such work, requiring a peculiar skill, may not be the kind of work which,

as consumers' representatives, they are necessarily fitted to undertake. Further, the size and multifarious activities of the C.W.S. have reached a point at which further growth will so overburden a Board of twenty-eight members, that they will either have to increase their number or devolve more and more of the administrative work on their officials.

The directors have also to undertake the management and administration of other organizations with which the wholesale societies are associated. The control of the English and Scottish Joint C.W.S. is vested in a Board of eight directors, six from the C.W.S. and two from the S.C.W.S. The Board meets monthly and a meeting of the two bodies of shareholders, represented by the directors of the two wholesale societies, is held annually to receive and pass the balance sheet. The business conducted by the E. & S. Joint C.W.S. is restricted to tea, coffee, cocoa and chocolate. There is, therefore, no need for frequent meetings to deal with the administration of this rather routine business.

The Co-operative Insurance Society is also jointly controlled by the two wholesale societies.[1] In addition, directors serve on the management committees of the retail societies which are "under supervision" by the C.W.S. Some are on permanent government committees, such as the Food Council and the Board of Trade Advisory Council. Others serve on public committees and industrial councils, such as the Transport Advisory Council, the Coal Utilization Council, Flour Millers Corporation, Manchester Ship Canal, Meat Advisory Committee, Chambers of Commerce and other similar bodies.

§ 3. *Wholesaling*

The functions of the wholesale societies can be grouped under four main heads: merchanting, importing, manufacturing and finance. The merchanting function is the most important, measured by trade. From the point of view of policy, however, in the development of the enterprise of the wholesale societies, more attention is paid to the expansion of manufacturing activities. The wholesale societies were originally established to act as wholesale agencies, though they soon found it necessary to begin production of many of the articles required by the retail societies. The manufacturing side of their activities has

[1] See Chapter 8.

grown to large proportions, and their policy to-day is to extend production until the movement becomes self-supporting, apart from those supplies which have of necessity to be obtained from abroad. There are many articles needed by the retail societies which are not yet manufactured within the movement. These are obtained by retail societies through the C.W.S. or S.C.W.S. who buy supplies from capitalist firms, or direct from private wholesalers and manufacturers. In some cases the wholesale societies are the sole agents for the co-operative movement for standard articles. Some of these articles compete with C.W.S. or S.C.W.S. productions, but as the demand for the capitalist products is large, the wholesale societies find it necessary to act as agents for their competitors' products. This is particularly the case in regard to tobacco, cocoa and some other proprietary foodstuffs.

The wholesaling functions of the C.W.S. are conducted from three main centres—Manchester, the original headquarters, Newcastle, opened in 1872, and London, opened in 1874. Each of these centres consists of a complete group of salerooms, warehouses and administrative offices. Around each is grouped a number of important C.W.S. factories. Sub-branches have been established at Bristol and Cardiff, under the jurisdiction of London. Salerooms have been established at Leeds, Birmingham, Nottingham and Huddersfield in the Manchester district, and at Plymouth and Northampton in the London district. The function of a saleroom is to provide a convenient centre for the maintenance of a relatively permanent display; depots carry on in addition minor administrative duties and buying. The head administrative offices of the S.C.W.S. are situated in Glasgow. The smaller area for which it is responsible has resulted in a much greater geographical centralization, both of productive works and of distributive departments, than in the case of the English society. The main salerooms are in Glasgow, which alone cater for the complete range of S.C.W.S. goods. There are branch salerooms in Leith, Kilmarnock, Dundee and Edinburgh.

Special displays of goods are made in the salerooms on one day of each week, and buyers from most societies make it convenient to visit one or other of the salerooms on that day, placing orders and meeting the officials of the wholesale societies. A member of a retail society may also purchase from the saleroom on his society's order form. Thus the wholesale societies provide a useful service to the

members of those retail societies without drapery or furnishing departments. Such societies are often willing to pay members' fares to the nearest wholesale showroom.

The wholesale societies have travellers attached to their various departments and factories, who visit retail societies periodically to display samples and book orders. Another point of contact between the wholesale and retail managers is the printed word. Price lists of all goods are circulated frequently. The use of these lists is facilitated by a long-standing instruction to managers that the same price must be charged to all societies on the same day, irrespective of the size of the order. Orders for goods are not necessarily dealt with at the salerooms. They have to be remitted elsewhere, since the salerooms do not carry stocks. Orders are more frequently filled from the branch warehouse in the case of drapery goods. Furniture is, for obvious reasons, usually distributed direct from the factories. Groceries may be distributed from depots at various ports, from local commodity warehouses, such as the C.W.S. Hull Bacon Warehouse, from branch warehouses, or from the warehouses of railway or shipping companies, or direct from C.W.S. factories or private manufacturers.

Arrangements have been made by the C.W.S. and the S.C.W.S. with manufacturers of certain standard lines, chiefly groceries and foodstuffs, to supply retail societies with goods on orders received through the wholesale societies. The C.W.S. or S.C.W.S. receives a single account from the manufacturer for all supplies sent out to retail societies in each agreed period. This method, known as "invoicing through", enables the wholesale society to pass on some of the advantages of bulk orders to small societies. In some cases arrangements have been made whereby goods can be "invoiced through" to the retail society at the same price as direct orders. This means a saving of dividend and commission to the movement, although it may divert attention from the desirability of co-operative production of certain articles, and it offers no incentive to large societies, which are able to place bulk orders, to obtain supplies from their wholesale society. On the other hand, the concentration of orders by retail societies for certain standard goods from capitalist manufacturers gives the wholesale societies a knowledge of the co-operative market for those goods, which is very valuable in the planning of productive enterprises.

Transport is organized through special departments established for

the purpose. Detailed transport arrangements are naturally in the hands of each factory. In the case of warehouses, central packing rooms are situated in each building or block of buildings, each room being responsible for the despatch of goods from certain departments. The C.W.S. also possesses a Steamships Department, which conducts the C.W.S. shipping service between Manchester and Rouen, operated by two steamships.

FIG. 20

C.W.S. IMPORTS, 1935

(A) COUNTRIES

from	£
Argentine	2,993,046
Australia	2,996,365
Canada	3,897,130
Denmark	6,082,231
Holland	793,389
India and Ceylon ..	3,842,618
New Zealand ..	3,338,408
Other Countries ..	8,696,828
Total	£32,640,015

(B) COMMODITIES

	£
Butter	7,948,501
Cheese	810,409
Coffee	72,617
Eggs	442,120
Fruit	2,122,736
Grain	761,624
Meat	2,619,978
Tea	4,293,717
Vegetables ..	349,432
Wheat	4,080,741
Other commodities	9,138,140
Total	£32,640,015

	£
Purchased directly from co-operative sources ..	9,818,036
Purchased directly from other sources	6,867,177
Purchased from merchants in Great Britain ..	15,954,802
	£32,640,015

The wholesale societies obtain from innumerable sources the commodities which they distribute. They import nearly one-third of them. One of the frequently asserted principles of the movement is that it acknowledges no divisions of class, race, or creed. It would therefore be inconsistent for it to pay attention to the demands of the nationalist school, except in so far as these have justification in the conditions under which the foreign producer operates. The volume of imports from foreign countries may, however, be affected by the

extent to which co-operative marketing is developed in other countries, since it is the policy of the wholesale societies to give preference to co-operative marketing organizations.

Fig. 20 shows the countries from which the main imports of the C.W.S. are obtained. It will be seen that these main imports are all foodstuffs. The S.C.W.S. imports similar goods on a smaller scale from the countries listed in the table. Less than a third is obtained from co-operative organizations overseas, but this proportion is being increased, for the wholesale societies prefer either to buy from co-operative organizations or through their own agencies. To this end the wholesale societies have set up buying depots in Ireland, Canada, Denmark, Spain, France, the United States, Australia, Argentine, New Zealand, Ceylon, and West Africa. In addition, direct trading relations have been set up with overseas co-operative marketing organizations. Deputations of directors and officials frequently visit foreign countries with a view to extending this practice.

The C.W.S. method of importing wheat calls for special mention. A special buying depot has been established on the Liverpool Corn Exchange which carries on all the operations usually associated with dealings in wheat and other cereals. It is responsible for the whole of the supplies to the mills. Direct trading relations have been established with various countries, notably in the case of the Australian and Canadian Co-operative Wheat Pools, but owing to changed circumstances these have not been maintained during recent years. It may be added that speculative buying and selling is not considered a desirable form of co-operative marketing; the wholesale societies prefer to negotiate comparatively long-term contracts direct with the producers.

In the case of tea, too, the peculiarities of the trade prevent the E. & S. Joint C.W.S. from buying all its supplies by contract from the planters. About one-fifth of the society's requirements is grown on its own estates in India and Ceylon. A small additional supply is purchased directly in the tea market at Colombo, but the prices at Colombo are determined by "Mincing Lane". The bulk of the purchases, therefore, have necessarily to be made in London. The methods of buying and selling tea at the London Tea Exchange prevent the society from acting as a broker. There are in fact only about twelve brokers engaged in this business and any of them may be commissioned to buy the society's requirements on the instructions of the representative who is present at each day's dealings.

In making purchases in the open market the practice of the wholesale societies does not differ from that adopted by the wholesale trade generally. Buying is controlled by the manager of the department or works concerned. One other method calls for attention, on account of its interest rather than its importance. The C.W.S. has established hide and skin depots in various parts of the country. They purchase the hides and skins of animals slaughtered in co-operative societies' abattoirs for use in C.W.S. fellmongering works and tanneries, while wool from sheepskins is sent to the woollen mills. The manufacture of boots and shoes and other goods from these skins is the last link in what is probably the most complete vertical chain of co-operative production. It is not entirely complete, however, since raw materials for the later processes are obtained also from other sources. Supplies from hide and skin depots exceeded £250,000 in value during 1935.

Although there is no compulsion on societies to confine their trade to the wholesale societies, they are strongly influenced to do so. The requirements of retail societies are fairly easily met and the wholesale societies can supply, if not all, at least a very high proportion of them. Apart from the question of co-operative ideals, it is claimed that a high degree of loyalty is profitable to the retail societies which benefit by the economies of large-scale organization, by the existence of strong wholesaling and productive organizations safeguarding co-operative supplies, by the fact that the C.W.S. and S.C.W.S. are the receptacles for most societies' surplus capital and by the good labour conditions maintained by the wholesale societies. It is also suggested that, since the wholesale societies sell only to co-operative societies, the latter, as a *quid pro quo*, should buy only from the C.W.S. or S.C.W.S.

On the other side, it is urged that to tie societies to the wholesales would be uneconomic, since it would remove a strong incentive to efficiency. This argument falls to the ground if democratic sanctions operate properly. Secondly, it is urged that to bring compulsion to bear on societies is contrary to the spirit of "voluntarism" which, to many co-operators, is the essence of democracy. In practice, the extent to which societies obtain their supplies from their own wholesale agencies varies considerably. Some, generally small societies, obtain the whole of their supplies from that source; in other cases, the proportion falls to 20 per cent., or even lower. On the whole, the smaller societies obtain a higher percentage of their requirements

from these sources than the larger societies. The following analysis of the trade of 102 societies with the C.W.S. illustrates this point:

FIG. 21

PURCHASES THROUGH C.W.S., 1932

Size of Societies (Members)	Number of Societies	Total Membership	Retail Sales per Member	Wholesale Purchases from C.W.S. per Member	Purchases* / Sales (per cent.)
			£	£	
Under 2,000	12	15,367	34·75	18·6	53·5
2,000– 4,000	12	39,504	30·3	14·9	49·2
4,000– 6,000	12	59,597	28·0	14·0	50·0
6,000– 8,000	12	86,924	30·1	13·8	45·8
8,000– 10,000	12	107,340	30·1	14·1	46·8
10,000– 20,000	12	177,440	28·0	11·6	41·5
20,000– 40,000	12	338,410	30·2	12·6	41·6
40,000– 60,000	9	470,514	29·9	11·9	39·8
60,000– 80,000	3	203,616	29·9	12·9	43·1
80,000–120,000	4	416,090	27·0	7·5	27·8
Over 120,000	2	676,670	25·9	10·7	41·3

* Average purchases from C.W.S. are at wholesale prices, while retail sales are at retail prices.

There are several reasons for this smaller percentage of C.W.S. trade in the case of larger societies. Small societies depend on the C.W.S. for services which larger societies can perform for themselves. As the size of the society increases, it is better able to undertake services and operate departments (e.g. hairdressing and painting) which do not appreciably increase the demand for wholesale supplies. A large society can perform for itself services, such as the breaking of bulk and carrying of stocks, which the C.W.S. performs for smaller societies. It can obtain favourable terms from private suppliers on account of the size of its orders. Consequently, its dependence on the C.W.S. is not so great and its loyalty may be subjected to a certain amount of strain. As the tendency for the membership to become concentrated in large societies grows, it is clear that the C.W.S. is only able to maintain its position by greatly increased efficiency.

The C.W.S. provided the retail societies of England and Wales with approximately 67 per cent. of their supplies in 1935, and the S.C.W.S. provided the Scottish retail societies with about 62 per cent.

About 65 per cent. of the retail societies' supplies of grocery goods are obtained from the wholesale societies. This figure would, however, be increased to more than 70 per cent. if the trade in perishables was eliminated from the calculations. There are two obvious reasons why societies are not willing to transact all their trade in perishables through the wholesale societies. The first lies in the nature of the commodities, and the second in the fact that these goods undergo no process of

FIG. 22

RETAIL SOCIETIES, 1935. ESTIMATED SOURCES OF SUPPLIES (WHOLESALE PRICES)

Source	England and Wales		Scotland		Great Britain	
	£000	Per cent	£000	Per cent	£000	Per cent.
Wholesale Societies ..	95,000	66·8	18,000	62·0	113,000	66·0
Productive and Federal Societies	4,500	3·2	2,000	7·0	6,500	3·8
Own Productions and Services	25,500	18·0	5,500	19·0	31,000	18·2
Farmers, Merchants and Manufacturers ..	17,000	12·0	3,500	12·0	20,500	12·0
Total supplies ..	142,000	100·0	29,000	100·0	171,000	100·0

manufacture, except pasteurization in the case of milk. Societies, particularly the large ones, may secure an advantage in buying for themselves. The introduction of Marketing Schemes for agricultural products and coal has, however, changed the attitude of the movement to the buying of perishable foodstuffs and coal locally. The retail societies have come to the conclusion that they can serve their interests better by concentrating their orders through the wholesale societies. The demands for milk, potatoes, bacon and coal from the wholesale societies are increasing as a result of this change of policy.

§ 4. *Production*

The manufacturing enterprises of the wholesale societies cover a very wide field. They aim at producing all the articles—foodstuffs,

furniture, clothing, household utensils—which co-operators buy for themselves and their homes; all the equipment that is needed to bring those domestic supplies to the consumer, such as shops, offices, buildings, transport vehicles; and the raw materials that are required in the production of finished goods. That aim has not yet been realized, but, as Figs. 23 and 24 show, the wholesale societies operate an extensive range of productive plants. The C.W.S. has 171 factories and workshops, which produced goods to the value of £34,500,000 in 1935. The S.C.W.S. operates fifty-six plants with an aggregate selling output of £6,026,000. The E. & S. Joint C.W.S. cocoa and chocolate factory at Luton has an annual selling output of approximately £250,000, and the annual value of supplies from the tea-packing and coffee-blending factories amounts to nearly £7,000,000. There are, therefore, 230 works and factories under the control of the wholesale societies and the annual value of the goods they produce is approximately £47,750,000. The efficiency of these plants, their locations and organization are discussed in Chapter 24.

It will be noticed that the range of productions undertaken by the S.C.W.S. does not correspond with that of the C.W.S. Some products manufactured by the C.W.S., such as cycles, corsets, cutlery and paints, are not made by the S.C.W.S. which, in turn, makes some products, e.g. jute, floorcloth and linoleum, not manufactured by the C.W.S. The S.C.W.S. acts as Scottish agent for C.W.S. products, and the C.W.S. deals similarly with the S.C.W.S. products in England and Wales.

We have seen that the retail societies obtain 66 per cent. of their supplies from the wholesale societies. In 1935 the value of the supplies from the wholesale societies amounted to approximately £113,000,000 at wholesale prices, £37,000,000 of which, or about one-third, represented goods subjected to some process of manufacture in their own factories and workshops. The total output amounted to £47,750,000, but the value of commodities produced in one plant which are used as raw material in another, the value of services not sold to retail societies, and sales abroad have to be deducted to find the value of supplies to retail societies. The value of the productions of the wholesale societies which are sold over the counters of co-operative stores is reckoned to be £37,000,000. Fig. 43 on page 410 shows the extent to which the movement as a whole is dependent on supplies of raw materials from non-co-operative sources, from which it will be seen

FIG. 23

PRODUCTIVE PLANTS OF THE CO-OPERATIVE WHOLESALE SOCIETY, 1935

Plants	Number of Factories or Depots	Number of Employees	Gross Output*	Net Output†
Food Production and Associated Processes:			£	£
Bacon Curing (England)	3	13	89,517	4,410
Bacon Curing (Ireland and Denmark)	3	580	812,873	94,515
Biscuits and Cakes	2	1,628	691,348	255,383
Butter Blending	3	270	1,649,630	28,842
Flour Milling	8	1,749	6,696,348	1,449,954
Food Canning	2	899	654,592	136,191
Lard, Refinery and Packing	2	24	168,025	5,722
Margarine	1	1,170	2,560,332	209,873
Dairies and Milk Products	9	328	1,897,976	87,286
Fish Curing	1	14	2,272	387
Preserves and Pickles	3	2,270	1,478,822	181,744
Vinegar	1	51	38,788	22,167
Textiles and Clothing:				
Clothing and Mantles	10	4,470	1,458,056	496,232
Corsets	1	643	234,232	179,619
Cotton Weaving	3	814	343,736	90,100
Hats and Caps	1	12	1,586	1,029
Flannel and Wool Shirtings	2	226	93,351	21,016
Hosiery	1	1,232	438,114	167,467
Shirts	4	1,646	432,743	159,944
Wool Weaving	3	618	277,549	119,338
Metal Goods:				
Aluminium Ware	1	99	50,063	20,009
Cutlery	1	62	30,129	17,001
Cycles	1	225	163,944	45,476
Jewellery and Watch Cases	1	68	37,962	11,086
Tinplate, Canisters, and Electrical Goods	3	701	205,747	113,606
Washing Machines	1	40	7,839	3,959
Leather Goods:				
Boot and Shoe Manufacture	7	4,500	1,640,748	613,451
Leather Goods, Bags, and Saddlery	2	164	54,871	19,874
Leather Tanning	2	159	174,911	46,691
Other Consumers' Goods:				
Brushes and Mats	2	314	101,194	46,112
Coal Mining	1	779	134,236	114,737
Chemicals, Drugs, and Drysaltery	4	1,359	1,403,839	354,699

PRODUCTIVE PLANTS OF THE CO-OPERATIVE WHOLESALE SOCIETY, 1935—*continued*

Plant	Number of Factories or Depots	Number of Employees	Gross Output*	Net Output†
Other Consumers' Goods:			£	£
Furniture	8	2,710	1,001,173	466,524
Paints and Varnishes	1	78	143,618	51,931
Pottery	1	159	36,948	20,037
Ropes and Twines	1	165	88,851	26,276
Soap	3	1,662	1,807,838	686,077
Tobacco	1	685	1,056,022	110,226
Works concerned mainly with Producers' Goods and Services:				
Building and Engineering	9	1,948	805,484	345,974
Glass Bottle Manufacture	2	389	158,561	72,060
Motor Body Building and Wheelwrighting	2	156	64,466	37,195
Packing Case Manufacture	1	178	99,332	41,623
Oil and Cake Mills	1	383	788,681	130,760
Power Station	1	20	61,776	40,729
Fellmongery	2	164	182,061	36,701
Joinery Works	1	125	40,516	25,001
Provender Milling	5	51	73,385	5,793
Railway Wagon Works	1	31	13,180	6,477
Printing	6	3,615	1,043,453	511,101
Weighing Scale Depots	14	169	64,493	43,707
Totals	149	39,815	31,555,211	7,776,112

* Gross output does not correspond accurately to value of sales from productive factories shown in other tables, e.g. 44*b*, since it relates to production, and production only, during 1935. Values of sales, however, also include certain selling expenses and sales from stocks in hand during the period under review. Only production in the society's main factories and workshops is included above. In addition, the C.W.S. has 11 farms with 726 employees and a gross output of £246,976, for which it is difficult to calculate net output; a number of depots at which no productive processes are carried on, such as milk depots, hide and skin depots; two packing factories where goods are broken from bulk and packed ready for retail sale; and several small factories, such as the picture framing and umbrella factories, the total output of which is relatively small. These are not included in the above table.

† Net output refers to gross output minus cost of materials.

that the volume of raw materials produced by the wholesale societies for use in other of their plants is relatively small.

It has been possible to obtain figures of net output of the productive plants of the C.W.S. These are given in Fig. 23. Similar figures are not obtainable for the productive plants of the Scottish C.W.S.

Fig. 24 gives the values of productions sold from S.C.W.S. plants in 1935, and not the values of goods actually produced in that year.

FIG. 24

S.C.W.S. PRODUCTIVE PLANTS, 1935

Plants	*Number of Factories or Depots*	*Productions Supplied* £	*Workers Employed*
Aerated Waters	4	54,687	68
Bacon	1	128,266	46
Bedding	1	13,311	29
Blankets	1	13,092	48
Boots and Shoes	1	339,613	993
Brushes	1	7,872	24
Building and Engineering	4	467,823	1,047
Clothing and Mantles	7	209,473	1,240
Drugs and Sundries	1	311,535	550
Fishcuring	1	168,582	102
Floorcloth and Linoleum	1	114,554	256
Fodder	2	41,815	11
Flour and Meal	5	1,536,473	385
Furniture	1	122,843	363
Hosiery and Knitted Underwear	2	50,275	178
Jute	1	213,821	455
Laundry	1	7,624	232
Margarine	1	216,236	130
Motor Body and Cartwright	2	34,928	84
Nursery	1	8,006	39
Preserves, Peels, Pickles, etc.	5	511,596	599
Printing, Bookbinding, Paper, etc.	2	345,828	805
Saddlery	1	10,383	35
Sausage	1	56,689	26
Scale Repair	2	5,171	22
Shirts	2	78,475	385
Soap, Candles, etc.	1	275,663	268
Tinware	1	51,773	159
Tobacco, Cigars, and Cigarettes	1	617,999	273
Underclothing	1	10,929	93
	56	£6,025,335	8,945

The two tables are, therefore, not strictly comparable. This can be seen by reference to the figure of total sales of C.W.S. productions in 1935, which was £34,500,000, while the total output value of goods

from 149 of the 171 C.W.S. plants amounted (see Fig. 23) to £31,552,211 in the same period.

§ 5. *The C.W.S. Bank*

The C.W.S. Bank is unique as a bank because it is not a separate institution; it is one of the numerous departments of the C.W.S. Prior to 1876, co-operative societies were precluded from carrying on banking business; in that year the Industrial and Provident Societies Acts were amended to remove the restriction. The C.W.S. had, however, anticipated the amendment to the Acts when it established a Loan and Deposit Department in 1872. This department accepted funds only from co-operative societies, and even after the establishment of the Bank this restriction remained. Deposits from individuals were accepted in 1910, and they now have an important place in the business of the Bank. Just before the War, trade union accounts were encouraged. To-day there are very few trade unions which do not conduct the whole of their banking business with the C.W.S. Many Working-men's Clubs, and mutual organizations such as Friendly Societies, sick clubs, educational and political associations, are also customers. The extent and classes of business of the Bank are shown in Fig. 25.

FIG. 25

ACCOUNTS AND FUNDS OF THE C.W.S. BANK, 1935

Class of Customer	*Number of Accounts*	*Credit Balances* £	*Overdrafts and Advances* £
C.W.S. Trade Account ..	—	64,244,870	—
Co-operative Societies ..	896	4,018,373	1,844,424
Trade Unions	10,014	4,398,079	48,608
Mutual Organizations ..	10,224	1,910,826	281,177
Clubs	990	269,481	96,720
Individuals	46,080	15,748,684	298,524
TOTAL	68,204	90,590,313	2,569,453

The most important customer is the collectivity of the C.W.S. trade departments. Of the sum of credit and debit balances, 68 per cent. is in the C.W.S. trade account. When the C.W.S. account is deducted from the total credit balances, that is, from the sum of current and deposit accounts, the rest of the business, amounting to more

than £26,000,000, is comparable with that of such banks as Coutts, with deposit and current accounts amounting to £23,000,000; or Williams Deacon's with £35,000,000; or the Scottish and Irish banks. These banks, however, are not in such a favoured position as the C.W.S. Bank, which, by virtue of having one customer with exceptional financial resources, is guaranteed a large and secure banking business. There are only twenty-three co-operative societies in England and Wales, with an aggregate membership of 10,500, which do not conduct their banking business with the C.W.S. Bank.

The business conducted with individual customers is growing year by year. The customers who use the C.W.S. Bank do not keep large balances in their current accounts. Of the £15,748,684 standing in individual accounts, £5,477,847 is in the accounts of customers making deposits through retail societies, and £7,254,198 is in "deposit notes". The method of opening a deposit account through a retail society is growing in favour, and 21,500 such accounts have been opened. The rate of interest on new deposits (1936) is 2½ per cent., a further ⅛ per cent. being added for three months' notice of withdrawal, and a further ⅛ per cent. for six months' notice. Deposit notes can be bought by customers not necessarily co-operators, who want a safe investment. Interest rates are from 2¾ per cent. to 3 per cent. according to the period of investment.

The banking methods used by the C.W.S. Bank are economical and certainly inexpensive. Its business is not sufficiently extensive to support branches in all the towns in England and Wales. There are branch banks at each of the main C.W.S. centres in London, Newcastle and Bristol. Two additional branches have been established in London, one in Kingsway, where the city office of the Co-operative Insurance Society is situated, and the other in Westminster near the headquarters of the Trades Union Congress and of some of the national trade unions. Throughout the country, local co-operative societies act as banking agents. This business is conducted through the local branches of the joint stock banks. Current accounts are opened with the joint stock banks, and when a local society arranges to be an agency of the C.W.S. Bank, it indicates which of the banks has a conveniently adjacent branch. The headquarters of the selected bank are then requested to instruct their local branch to accept the deposits of the co-operative society. These deposits are credited to the C.W.S. Bank's current account with the selected joint stock bank.

Local withdrawals, which are usually infrequent, are arranged by the issue of bank drafts drawn by the C.W.S. on the same bank. The daily takings of co-operative societies in all parts of England and Wales are thus lodged to the credit of the C.W.S. Bank with one or other of the joint stock banks, where they are available to be drawn upon for ordinary banking purposes.

This system provides the C.W.S. Bank with over 2,500 local agencies. Individuals banking with the C.W.S. can present cheques for payment, or put sums in their accounts, at the local co-operative society, either at its head office or at one of the branch shops which have been selected for the purpose. The local society submits a daily statement of these transactions to the headquarters of the C.W.S. Bank at Manchester or to the nearest branch office at London, Newcastle, or Bristol. This statement shows the deposits paid in by the customers of the bank and the sums paid to them. If the balance on these transactions is a credit due to the Bank, the more frequent result, the co-operative society pays the credit into the local joint stock bank. Where the reverse situation occurs, and the local society has paid out more than it received, it claims the difference on the daily statement and the Bank credits the sum to the society's current account. The C.W.S. Bank assembles these daily statements, balances the total transactions, and makes the necessary adjustments and reconciliations in the societies' accounts. The local societies are remunerated for the banking business they undertake, special allowances being made for each class of work.

The interest on current accounts is not determined until the end of the half-year, when the available surplus is ascertained and a rate of interest decided upon that will utilize all the surplus with the exception of an amount sufficient to make a modest allocation to the reserve fund. The rates of interest allowed do not vary as between customer and customer with one exception. Co-operative societies receive ½ per cent. more on credit accounts than the rates shown on the terms slip for other customers, and are charged ½ per cent. less on debit accounts or overdrafts. During the decade ended July 1932, the average rate paid on current account was £2 13s. 3d. per cent., and to societies £3 3s. 3d. per cent.; the existing rates (1936) are 2 per cent. and 2½ per cent. respectively. The manner in which the Banking Department utilizes its funds has been explained in Chapter 6, and calls for but one comment here. The proportion of the funds

placed in overdrafts is relatively low, and the proportion placed in investments relatively high, as compared with banking practice generally. This is due to the habits of thrift innate in the co-operative system. The co-operative movement has attracted (in part through accumulated dividend) a greater amount of monetary resources than is needed for its existing capital or trading requirements. A large part of this passes more or less automatically to the C.W.S. Bank. Most co-operative societies are now self-supporting for capital purposes, and few overdrafts are necessary.

The C.W.S. Bank acts as banker to the Co-operative Wholesale Society Limited as a trading body, on terms slightly more advantageous than other banks would allow to their important commercial customers. The Bank acts as financial adviser, arranges credits for foreign purchases, supervises the financial arrangements at the colonial and foreign depots, advises on foreign exchange policy, and so forth. All the financial transactions of the C.W.S., as distinct from those of the Bank itself, pass through a current account, and are treated in the same way as those of an ordinary customer. Bank and trade operations are thus kept quite distinct. The accounts of several foreign banks are also conducted by the C.W.S. Bank. It has made considerable advances to co-operative organizations in New Zealand, Australia, Russia and elsewhere. The Bank is also affiliated to the Banking Committee of the International Co-operative Alliance.

The Bank is governed by the Board of Directors of the C.W.S. The administration, however, is supervised by the Finance Committee.[1] This Committee meets once weekly, and at each meeting the Bank Manager attends and submits particulars of the Bank's business, with the necessary statistics; position of funds, investments, overdrafts, bank balances, applications for overdrafts, questions of policy, etc., are considered. The decisions of the Finance Committee go to the Board for approval or otherwise, and are then acted upon. Methods of control and supervision differ very little from those of an ordinary commercial bank.

The Scottish C.W.S. has an account with the C.W.S. Bank, but the banking business of the co-operative movement in Scotland is conducted with the Scottish joint stock banks. This is in line with the general financial system in Scotland, where the banks are independent of the joint stock banks in England and Wales.

[1] See p. 147.

§ 6. *Miscellaneous Services*

The wholesale societies of to-day are called upon to undertake many services, additional to providing goods for retail distribution, which were not contemplated in their original aims. They have been undertaken to satisfy the needs of retail societies, which, in the development of their trading operations, have required to an ever-increasing extent the services of architects, builders, shopfitters, research chemists, advertisers, publishers, lecturers and propagandists, exhibitions and cinema shows and other miscellaneous services. All these are provided by the wholesale societies for their members. The modern policy of the wholesale societies is to undertake every kind of commercial service that any section of the movement may require.

Retail societies, with very few exceptions, now have their new shops, offices, dairies, laundries and other buildings designed by the architects of the C.W.S. or S.C.W.S., built by the building departments of the wholesale societies and fitted by their shopfitting departments. Alterations to old buildings are also carried out by these staffs. The improvement in co-operative architecture which has been so noticeable in the post-war years has been due to the virtual monopoly of building which the movement has given to the wholesale societies. The large quantity of work thus concentrated in two organizations has enabled them to employ big staffs of qualified practitioners, including architects, engineers and surveyors, who, by pooling their problems and experiences, have raised the standard of designing and building to a high level.

Another service which has given excellent results is the organization of exhibitions. In the main these are organized by the C.W.S. Publicity Department. The Scottish C.W.S. has fewer opportunities of undertaking this service. The advertising of C.W.S. products and services and, to a more limited extent, retail societies' advertising, are also undertaken by the C.W.S. Publicity Department. In these fields its work has been less successful. Co-operative advertising has not reached as high a standard as the size and scope of the movement warrant.[1] The C.W.S. Publicity Department also publishes a number of periodicals, books and pamphlets. In Scotland the advertising service is provided by the S.C.W.S. Advertising Department.

The C.W.S. has established a Chemical Research Department,

[1] See p. 404.

where all the products of C.W.S. factories are tested for purity and quality, and where non-co-operative goods are also tested to ensure that their standards are at least as good as their advertised claims. This department, which is recognized by the appropriate authorities as having the status of a public analyst, also undertakes many services for retail societies. For instance, it advises co-operative societies on the best methods of dealing with perishable goods so as to avoid waste and to ensure a maximum of purity; it also acts in conjunction with the Legal Department, another service provided by the C.W.S., when any co-operative organizations inadvertently, or as the result of inefficiency, transgress the Foods and Drugs Acts.

These services are organized to meet the needs of retail societies. There are, however, services organized by the C.W.S. which pass over the retail societies and are undertaken directly for the individual. They are the C.W.S. Health Insurance Section, described in the next chapter, and the Co-operative Dental Association. The latter is a unique enterprise. It is governed by a committee consisting of three dental practitioners and two C.W.S. directors, and has opened forty-five surgeries, employing sixty dentists, in various parts of the country, where members of retail societies can obtain dental treatment.

§ 7. *Wholesale Societies and Retail Trade*

The growth of the wholesale societies and the extending scope of their services has led to suggestions for direct participation in retail trade. This has only recently been discussed as a matter of general policy, but some retail societies have in the past found themselves in financial difficulties and have called on the C.W.S. or S.C.W.S. for assistance. The C.W.S. at present has forty-four retail societies "under supervision". To assist them and nurse them back to prosperity, the C.W.S. appoints two or three of its directors to become the management committee of the society. The original committee becomes an advisory body only. Under the management of the C.W.S. and with the backing of the central organization, these societies usually recover their former position. But the question has often been raised: why should the C.W.S. give the societies back to their original management? Under C.W.S. guidance and control, their efficiency has been improved and they have given better service to their customers. This feeling was responsible for the formation of the C.W.S. Retail Society

Ltd. At the quarterly meeting in January 1934 the C.W.S. was authorized, under certain conditions, to open retail shops, a proposal which aroused a storm in some sections of the press. The conditions laid down were, however, intended to safeguard the position of retail societies. Branches of the new retail society are only to be opened in areas where there is a desire for them, and where local circumstances are against the formation of a completely autonomous society, or where the local society has repeatedly failed to maintain its position. The interests of neighbouring societies are to be consulted, and provision is made for the branch to become independent of the C.W.S. if it achieves sufficient strength. The scheme before adoption was submitted to the Co-operative Union for approval. It is believed that steps will be taken later to facilitate the management of the societies under supervision by incorporating them in the scheme. The first branch opened is at Cardiff where the local society has never been very successful. The society is now officially known as the Cardiff Branch of the C.W.S. Retail Society Ltd. The Cardiff experiment is being closely watched, and the results obtained there will probably determine future policy.

The Scottish C.W.S. has engaged in retail trade since 1910, when a retail store was opened by the S.C.W.S. in Elgin. It is difficult and often impossible to establish retail societies in the Highlands. They are too far removed from the urban centres from which the movement receives its strongest support. Yet the people in these areas are willing to support the idea of co-operative trading, if the store and co-operative services are provided for them. They are not interested in exercising control over the store themselves. So far, five such branches or stores have been opened. Their situations and memberships are:

Banff, Banff	430 members
Buckie, Banff	1,000 members
Elgin, Moray	1,724 members
Forres, Moray	1,198 members
Peterhead, Aberdeenshire	1,828 members
	6,180 members

The organization of retail trade by the wholesale societies has not

reached a position of importance. The efforts that have been made so far have been largely experimental. Only a radical change in the views of the movement would permit a wide extension of this kind of trading. Such a change, as far as can be judged by the present temper of the movement, is unlikely.

Chapter 8

CO-OPERATIVE INSURANCE

Insurance is one of the most successful branches of co-operative enterprise. The ability of the movement to adapt its peculiar form of organization to meet the needs of this distinctive business illustrates the flexibility of the co-operative structure. There are two separate departments concerned with insurance business, both of which are controlled by the wholesale societies. The Co-operative Insurance Society, jointly controlled by the C.W.S. and the Scottish C.W.S., is responsible for life assurance and all branches of general insurance except health insurance. The C.W.S. has established a special department for health insurance, which, in its organization and management, occupies a position similar to that of a trading department of the C.W.S.

§ 1. *The Co-operative Insurance Society Limited*

The movement went into the insurance business in 1867, when the Co-operative Insurance Company was founded as a federal society to insure the property of co-operative societies. The word "Company" was dropped from the title and "Society" substituted in 1899. It had made very little progress before it was taken over by the wholesale societies in 1913. For many years it confined its business to fire and fidelity insurance and found these two lines rather unprofitable. It ventured into life assurance in 1886, but the methods adopted to insure the lives of co-operators were not such as to obtain a satisfactory response. Premiums were paid through local retail societies at quarterly or half yearly periods instead of through weekly house-to-house collections, the more usual practice in working-class households. Handicapped by its inefficient methods, the Society made very little progress, and the business which was taken over by the wholesale societies could hardly be described as a going concern. The history of co-operative insurance is of some interest, because it supports the claim of the wholesale societies that all services, other than retail distribution, can be more efficiently organized under their control than by specialized societies. While it was a separate and independent society,

the C.I.S. was far from enterprising; under the control of the wholesale societies, it has made rapid progress.

In 1917 the C.I.S., now owned by the wholesale societies, absorbed the Planet Friendly Assurance Collecting Society, and used the local agents of the Planet for the inauguration of house-to-house canvassing and collection of premium payments. This method of conducting life assurance business, though costly, is apparently necessary for successful development in this class of business.

The official sub-title of the C.I.S.—The Joint Insurance Department of the Co-operative Wholesale Society and the Scottish Co-operative Wholesale Society—printed on all the documents issued by the Society, is the public indication of joint ownership by the two wholesale societies. For the purpose of management, it is treated as a department of the C.W.S., with the additional feature of S.C.W.S. participation, although it is registered as a separate society under the Industrial and Provident Societies Acts. The nominal capital of the C.I.S. is £105,000, of which only £26,250 has been called up. The nominal holding of the C.W.S. is £84,000, £21,000 of which has been called up. The S.C.W.S. has likewise paid only a quarter of its nominal holding of £21,000. It is governed by a management committee of ten members, eight appointed from the directors of the C.W.S. and two from the directors of the S.C.W.S. The C.W.S. always appoints its Finance Committee[1] of eight members as its representatives; this arrangement serves a very useful purpose, for in the course of their duties as a C.W.S. committee, they also attend to C.I.S. business. As the headquarters of the C.I.S. are in Manchester, and the principal branch office is in London, the C.W.S. Finance Committee, with the addition of the two directors from the S.C.W.S., undertakes the responsibility of day-to-day administration.

The manager of the C.I.S. reports to the Finance Committee, and meets with it at frequent intervals, in just the same way as do the departmental managers of the C.W.S. who come under its jurisdiction. The C.W.S. Finance Committee is thus responsible for administering the important financial operations of banking and insurance. The co-ordination of financial administration in one committee is advantageous. It makes possible a common policy in regard to investments; and it concentrates the financial strength of co-operative enterprise,

[1] See p. 147.

so that, if difficulties were ever experienced, the collective resources of the movement could be effectively organized to meet them.

As the C.W.S. and the S.C.W.S. are the sole shareholders of the C.I.S., their member societies have no legal right to receive its balance sheets and reports, or to raise questions regarding its administration, except in so far as the administration affects the value of the share capital of the C.I.S. In practice, however, a summary of the C.I.S. balance sheet and the financial results of its business are included with the annual balance sheet of the C.W.S. and one of the two half-yearly balance sheets of the S.C.W.S. The delegates to the wholesale societies' meetings thus have an opportunity of discussing the Insurance Society's affairs. This practice has been followed because it serves a useful purpose. The reasoned criticisms of retail societies' representatives are incentives to efficiency; and the announcement of C.I.S. business in the reports of the wholesale societies gives publicity to its affairs among its most influential customers.

The business conducted by the C.I.S. and the methods used are much the same as those of any other well-established insurance company. A little more than half its business (52 per cent.) is in industrial life insurance, 18 per cent. in ordinary life assurance, 11 per cent. in motor insurance, 10 per cent. in co-operative societies' own business risks and other arrangements, and 9 per cent. in the co-operative collective life assurance scheme. This latter scheme is another example of the benefits of collective enterprise. Every member of a retail society which pays the stipulated premiums is automatically insured. On the death of a member, the retail society pays the sum provided in the scheme to the person nominated by the testator. This sum is based on the member's average annual purchases from his society in the three years prior to his death. In the case of a husband's death, his wife, or dependants receive 4s. per £ of purchases up to a maximum payment of £40; on the death of a wife, the rate is 2s. up to a maximum payment of £20; and in the case of a single person, 5s., with a maximum payment of £50. The premium income is paid by the retail societies to the C.I.S., the rate being 1½d. per £ of sales. Some societies have obtained a modification of these premiums whereby they pay 1d. per £ of sales, in return for which their payments to members' dependants are arranged on the basis of the average of three years' purchases, or the last full year's purchases, whichever is the smaller. Only a few societies, most of them small, have not joined the scheme,

and several of these have similar schemes of their own, independent of the C.I.S. The scheme is simple, and is of great benefit to poorer households when the expenses of funerals have to be met. Its value can be gauged from the 1935 payments, which amounted to more than £440,000.

Apart from this collective life assurance scheme, the only insurance of a specifically co-operative character is that arranged for retail and other societies to cover their business risks. It is estimated that 98 per cent. of this kind of insurance is placed with the C.I.S. and accounts for about 10 per cent. of its premium income. It covers fire, accident, employers' liability, motor and general insurance and is undertaken on an ordinary business footing. The premiums are calculated to accord with the risks. But certain advantages accrue to the C.I.S. and to the insured societies from the co-operative character of the business. The C.I.S. is assured of a large and steady premium income from trading concerns which are "good" risks, for co-operative societies do not go bankrupt, or act carelessly in matters affecting property; their insurance payments are kept within the movement; the reserves which the C.I.S. creates add to the financial strength of the movement; and the profits are distributed to retail societies.

Other forms of insurance are conducted directly between the C.I.S. and the insured persons. The old method of arranging for premiums to be paid through co-operative societies has been discarded. Great Britain is covered by a network of 200 district and branch offices, at which any kind of insurance can be arranged. The "field" staff consists of 3,000 full-time and 8,000 part-time agents. These local agents are carefully selected, and the C.I.S. lends the successful applicants up to 75 per cent. of the purchase price of their "books" and guarantees each agent a minimum weekly earning of £2 10s. 0d. For the first few weeks of an agent's employment, he has the services of a special canvasser to explain his duties and generally advise him on the most successful methods of canvassing.

The C.I.S. compares favourably with other insurance offices in the progress it has made in the post-war years. Between 1920 and 1935 its annual premium income increased five-fold, from £1,385,000 to £6,993,000; and its assets increased thirteen-fold, from £1,685,300 to £21,770,300. Measured by premium income for industrial life assurance the C.I.S. ranks sixth in the list of the most important offices and tenth for all classes of insurance. It has made outstanding progress in

recent years. In the nature of its position, the C.I.S is not strictly comparable with companies which deal to a large extent with commercial and marine insurance. Such business accounts for only a small part of its operations and is conducted largely with co-operative societies, the trading operations of which do not call for much insurance against speculative risks.

There are several reasons for the post-war progress of the C.I.S. It is as efficient as most other offices, and would obtain in the ordinary course of events a part of any general increase in insurance business, such as that occurring in the post-war years. As the C.I.S. is not a member of any tariff association, it can quote its own terms, and is thus able to compete successfully for business outside the market provided by the movement. In refusing to belong to tariff associations, which can legitimately be described as insurance "price rings", the C.I.S is following the acknowledged principles of co-operative trading. Moreover, there is a great amount of goodwill given to any enterprise of a co-operative character by the 7,600,000 members of the movement. This is quite rightly exploited by the C.I.S., whose agents, able to obtain lists of retail societies' members, have an important and valuable contact with thousands of potential policy holders. Many C.I.S. agents are on committees of management of retail societies and there is generally a strong link between the local C.I.S. staffs and local societies, which has been very useful in the development of the insurance business. This link has also been useful to the retail societies, for the C.I.S. agents consider themselves to be co-operative missionaries. In some areas, where the co-operative societies have a large percentage of the population as their members, the local agents are supplied with lists of non-members on whom they call to explain the benefits of co-operative trading as well as to canvass for insurance.

It is impossible to say whether or not the co-operative form of organization of the Insurance Society gives it any advantage over its competitors. As has been seen, the paid-up share capital is only £26,250, on which the rate of interest is fixed at 5 per cent., so that the annual payment to capital amounts only to the incredibly small sum of £1,312. The advantage of exceptionally low capital charges is, however, counterbalanced by the effect of investment policy described below. On the other hand, the absence of the profit motive enables the C.I.S. to accumulate strong reserves which help to meet the handicap of restricted investments.

Following the usual practice of other insurance companies, all profits accruing from life assurance policies are distributed to the policy holders. The profits from other insurance business are distributed to retail societies by a device similar to the distribution of dividends on purchases by the wholesale societies. Co-operative societies which place the insurance of their corporate risks with the C.I.S. receive an annual dividend equal to 12½ per cent. of their premiums, if they are members of one or other of the wholesale societies; non-members of the wholesale societies receive half that rate. The total distribution of profits and interest on capital amounted to £43,105 in 1935. The retail societies thus share the profits arising from the insurance of their corporate risks, and also share the profits from insurance business, apart from life insurance, conducted with other organizations and individuals. The total profits from fire, accident, motor and other general insurance amounted to £146,000, so that, after provision had been made for distribution of profits, for pension funds and other commitments, and the carrying forward of a requisite balance, the sum of £70,000 was available as a general reserve. This sum was additional to the reserves, amounting in the aggregate to £714,000, which each department allocated to cover its risks, and additional to the total extra reserve of £508,000 which was put aside to add to the financial strength of the society. Life assurance funds, amounting at the end of 1935 to £19,295,000, are kept separate and distinct from other reserves, which amounted to approximately £2,000,000. The figures seem to indicate that the general reserves are larger than is necessary to provide adequate cover for the risks undertaken. They provide a fund of capital which can at any time be used for the benefit of the movement. The C.I.S. used its funds to assist the C.W.S. in the immediate post-war years, when £1,100,000 was invested in the Development Bonds which the Wholesale Society issued to meet a temporary shortage of capital.

The C.I.S. is faced with a difficult problem in the investment of its funds. It must seek to obtain the highest possible return, since its terms for life assurance and the bonuses to policy holders depend on its income from investments. But the most profitable avenue of investment is virtually closed to the C.I.S. It does not place its funds in industrial enterprises which compete with the co-operative movement. This is a self-denying ordinance which follows from the character of the movement, but it imposes a handicap on the C.I.S.

To maintain a satisfactory income and to maintain its insurance rates, it has to keep expenses as low as possible. It has thus a self-imposed incentive to efficiency which has contributed to its successful career. About 90 per cent. of the investments are in gilt-edged stocks, house mortgages and similar securities. Only a very small proportion of the investments is in industrial debentures and preference shares; none is in ordinary shares of commercial joint stock companies. A small part of the investments are placed through the C.W.S. Bank, which undertakes all the banking business of the C.I.S. The C.W.S. Bank, however, is not used as a broker. Arrangements are made to place the larger part of the investments directly through brokers.

The person who arranges an insurance with the C.I.S. will not notice, without deeper investigation, any difference between it and any other reputable insurance company, except for the use of the word "co-operative" in its title; but that, as we have seen, is not restricted to co-operative societies. It gives better terms than some, but not better than all other insurance companies. Yet there are many evidences of the co-operative character of the C.I.S. apart from its ownership. It is a member of the International Insurance Committee of the International Co-operative Alliance, through which it has contacts with co-operative insurance societies in other countries. It is thus able to discuss common problems, pool experiences, and accept and offer reinsurance, particularly of fire risks. The C.I.S. would prefer to effect all reinsurance, necessary to spread unusual risks, with other co-operative insurance societies, and through the International Insurance Committee it is working to that end. In the treatment of its staff, too, it displays its co-operative basis. All its permanent full-time workers must belong to a trade union, and working conditions are negotiated with the appropriate unions. The salaried staff work under conditions negotiated with the Guild of Insurance Officers. There is, however, a tendency for these negotiated minimum terms of employment to be considered as maxima, and there is probably less elasticity in the payment of salaries to officials of the C.I.S. than there is in most other insurance offices.

§ 2. *The C.W.S. Health Insurance Section*

The National Insurance Act of 1911 created considerable controversy in the co-operative movement. The problem was to find a form of

organization which would administer the scheme on co-operative lines. The unsatisfactory nature of the pre-war Co-operative Insurance Society was well illustrated in the discussions which ensued. Before the Act was passed, the big insurance companies obtained a concession which enabled them to form separate sections to operate health insurance on a non-profit making basis. This concession opened the way for the co-operative movement to do likewise, and if the modern Co-operative Insurance Society had been functioning in 1911, there is no doubt that it would have been the body to undertake the service; but the formation of a health insurance section by the C.I.S. was vigorously opposed, as were also the proposals to form a special society for the purpose, or, alternatively, to encourage retail societies to administer the scheme. The final suggestion, to form a health insurance section of the C.W.S., received sufficient support to make the venture possible. So far there has been no similar enterprise in Scotland.

The National Health Insurance Acts provide that an approved society must not operate for profit and that in its constitution its affairs must be subject to the absolute control of its members, who must, either directly or through delegates, elect the committee of management or other governing body. Accordingly, the connection between an approved society which is a special section of a profit-making concern, and the parent body, is not, in strict law, very close. It amounts rather to a lending of the name and reputation of the parent body to the special section; the former has no legal or financial control over the approved society and its directors or shareholders have, as such, no right to interfere in its affairs. In practice, of course, the connection is much closer, since the parent body provides also goodwill, and, very often, special facilities for operating. The parent body may in return derive advantages from its association with the approved society, and the members of the approved society may see their way to grant the parent body some degree of authority, such as representation on the committee. Control of the C.W.S. Health Insurance Section, therefore, vests formally in the insured members. The membership is divided into groups of not less than 750 members, each group being attached either to a co-operative society or group of co-operative societies, or to a depot of the C.W.S. Each group of members is entitled to elect from its membership one delegate for every 1,000 members to transact business at the annual general meeting of the section and at special general meetings.

Elections of delegates are normally held every five years. There are at present 249 electoral groups, and 322 delegates' positions are available, but no less than 167 are vacant; 112 electoral groups are fully represented, and 120 not at all. This may no doubt be due to the manner of conducting elections, which does not secure the maximum number of nominations. It is a common experience of approved societies that the membership takes little interest in their democratic forms and methods.

The administration of the Health Insurance Section is in the hands of a general committee of twenty-eight, elected annually at the general meeting. It is here that the position of the C.W.S. becomes more obvious, for the committee is and always has been the whole of the Board of the Wholesale Society. The delegates might, if they wished, make major or minor alterations in the personnel of the committee. But, apart from the fact that the members of the committee give their time and services voluntarily, it would be open to the C.W.S., in the event of alterations, to give notice of its intention to terminate its connection with the section. It will be seem that, under normal circumstances, the possibility of such a step is remote.

The committee responsible for the day to day management of the Health Insurance Section is a sub-committee of the C.W.S. Board. The Board appoints the C.W.S. Finance Committee for this purpose, thus concentrating the administration of all forms of insurance in one committee. The control of the Health Insurance Section is simple in operation. Before meeting as the C.W.S. Finance Committee, the same C.W.S. directors meet as the Health Insurance Sub-Committee, and their decisions are ratified by the C.W.S. Board sitting as the Health Insurance General Committee. The identification of the government of the C.W.S. with that of the Health Insurance Section goes even further. Questions about Health Insurance are asked and answered at C.W.S. quarterly meetings, although they are strictly out of place there. This is not without importance. Societies are, in practice, as interested in the scheme as the insured members, and their questions at C.W.S. quarterly meetings act as a check on the actions of the Health Insurance Committee.

When the Health Insurance Section was originally formed, it was anticipated that the retail societies would act as agents, obtain new business, receive and distribute contribution cards, pay benefits and generally maintain contact between the members and the administra-

tion. The auxiliary organizations—men's and women's guilds—would provide voluntary sick visitors, thus linking the scheme closely with the social side of the movement; but this part of the plan never came into being, although here and there members of the Women's Guild act as sick visitors on behalf of some local committees.

There is a local committee for each electoral group, usually consisting of the committee of management of the society to which members of the group are attached. Where the group is attached to one of the centres of the C.W.S., or where the committee of the local society refuse to act, the general committee appoints a local committee of six persons. The local committee is a voluntary body, responsible for receiving and vouching for new members and for verification of sickness claims. It also acts as a first court of appeal against decisions of the general committee. The work of each committee devolves upon its secretary, who is usually an official of the retail society. This system secures the goodwill and support of the co-operative movement and is economical, but it has disadvantages. Societies generally regard National Health Insurance as a sideline and do not seek new members vigorously. Except in large groups, there is little opportunity for the clerks responsible for the work to become expert in its details. Moreover, insured members are demanding more service and are often unwilling to go to and from the society's central office or shop for cards and benefits. The number of societies able and willing to give full Health Insurance service is comparatively small. For these and other reasons a number of societies decline to be troubled with an agency for the Health Insurance Section. Actually, out of 871 retail societies in membership with the C.W.S., 583 act as agents for the section.

The section has made quite satisfactory progress. The total number of insured contributors for England and Wales increased from 15,894,900 at the end of 1929 to 16,710,900 at the end of 1935, an increase of 5 per cent. In the same period the membership of the C.W.S. Health Insurance Section increased by 132,000 or 49 per cent., from 271,000 to 403,000. It has thus grown rapidly in recent years, and is now the seventh largest approved society in the country. The Acts restrict transfers from one society to another, so that this new membership has to be gained mainly from new entrants to insurance. It is impossible to discover the extent to which the membership of the section is made up of co-operative employees, but probably to a

much smaller degree than might be anticipated. The National Union of Distributive and Allied Workers has an approved society membership of 40,000, drawn mainly from co-operative workers. Other trade unions and approved societies take their share, particularly in the case of C.W.S. productive works, where a large proportion of the workers were not C.W.S. employees at the time of entry into insurance. Out of 45,000 C.W.S. employees, 13,000, or less than one-third, are members of the Health Insurance Section, and they constitute less than one-thirtieth of its total membership.

It is extremely difficult to compare the relative efficiencies of approved societies. Members who transfer from one society to another lose considerable benefits, so that dissatisfaction does not often find expression in transfers. The average member does not usually compare the benefits and service to be derived from various societies, as he might do when taking out an ordinary insurance policy. Consequently membership constitutes only a rough guide to the attractiveness or otherwise of a society. Perhaps one of the best rough tests is the result of the quinquennial valuation by the government actuary. The amount of surplus of each approved society is ascertained by the actuary, who also decides how much of it shall be made available for the society to distribute to its members by way of additional benefits. This disposable surplus represents the benefit, apart from services, which accrues to the membership. According to the latest valuation of the eight largest approved societies, only one had an average disposable surplus larger than that of the C.W.S. Health Insurance Section, which, therefore, offers an attractive service to insured persons.

CHAPTER 9

OTHER FEDERAL SOCIETIES

THERE are four main kinds of federal societies—the national wholesale societies, specialist national societies controlled by the wholesale societies, specialist national societies controlled by individual retail societies, and local federal societies. The first two kinds have already been described. Societies of the last type, which are by far the most numerous, are controlled by a number of adjacent retail societies and serve a relatively limited area. They are often loosely described as "federal societies" without qualification, but it is best to use the term "local federal society" for this type in order to distinguish it from the national wholesale and specialist societies.

The national specialist societies are parallel to the wholesale societies in structure but much smaller in size, specializing on a limited range of trade. This class is not of great importance and there are in England only two—the Co-operative Press, Ltd., and the Co-operative Printing Society, Ltd. The work of the Co-operative Press is described in Chapter 14. The Co-operative Printing Society was the original printing organization of the co-operative movement and for years did the whole of the printing for the C.W.S., the Co-operative Union and the *Co-operative News*, before any of these organizations provided their own facilities. The C.P.S. is unique in structure, comprising on its Board representatives of the trade unions and retail societies. Its customers to-day include retail co-operative societies and most of the principal trade unions. At a later stage the C.W.S. decided to do the printing for its own departments and still later became an effective competitor of the C.P.S. for printing for retail societies. The C.P.S. pays interest on capital, bonuses to its workers and dividend on trade.

Effective democratic control, a problem which is discussed more fully in Chapter 19, is difficult in the English specialist federal societies. In Scotland, the concentration of co-operative activity has rendered control easier, and the distinction between national and local federal societies is, for geographical reasons, much less marked. There are three Scottish specialist federal societies—The United Co-operative

Baking Society, the Paisley Co-operative Manufacturing Society[1] (manufacturing clothing), and the Scottish Co-operative Laundry. The United Co-operative Baking Society is the largest, with an annual trade of £1,237,000, serving Glasgow and Belfast with bread and most of Scotland with biscuits, pastry and confectionery.

Much more important in terms of numbers are the local federal societies. In 1935 there were forty-four in England and Wales, and seven in Scotland. The chief lines of trade organized in this way are baking, dairying and laundering. In England, in contrast with Scotland, bread-baking is entirely in the hands of retail societies and local federal societies. Federal bakeries are chiefly confined to the North; out of a total of eleven, seven are in Northumberland and Durham. Most of these work on a fairly small scale when compared with the bread output of the larger retail societies or the U.C.B.S. of Scotland. The latter indeed overshadows all other co-operative bread-baking undertakings in this country. The average output of the three largest federal bakeries was £63,600 in 1935, which is small compared with the bread and pastrycooks sales of many medium-sized and large retail societies.

Federal laundries are much more evenly distributed over the country. Only a few retail societies operate laundries of their own, and federal laundries in consequence serve much larger societies than is usual in the case of federal bakeries. The largest is the United Co-operative Laundries Association Ltd. in Manchester, which was founded in 1912 as a federation of twelve societies. In 1935 it had fifty member societies, and in 1936, sixty-eight, stretching from Preston to Shrewsbury and as far into Wales as Llandudno Junction. It had an annual trade of £560,000, with plants at Manchester, Liverpool and Stoke-on-Trent. The Liverpool plant was doing the unusually large annual trade for a single laundry plant of £152,000. The other fourteen federal laundries work on a smaller scale, varying in trade from £3,800 to £125,000 per annum.

There has been a fairly rapid development recently in the number of federal dairies. In 1935 there were seven federal dairies with a total of fifty-two retail society members.

The other local federal societies do not, as yet, do any large volume of trade. The largest is the Huddersfield and District Co-operative

[1] This society, although largely controlled by retail societies, also carries on general retailing and has individual members.

Meat Traders' Association with an annual trade in 1935 of £200,000.

A summary of the facts concerning local federal societies is given in the following table.

FIG. 26

THE MEMBERSHIP AND SALES OF LOCAL FEDERAL SOCIETIES, 1935

Industry	*Number of Local Federal Societies*	*Total Number of Retail Societies who are Members*	*Total Sales of Local Federal Societies* (£000)
Baking (England and Wales)*	11	81	279
Baking (Scotland)†	2	13	163
Laundries (England and Wales)	15	375	1,033
Laundries (Scotland)‡	2	89	52
Dairies (England and Wales)	7	52	617
Miscellaneous (pharmacy, meat, shoe repairing, funeral furnishing, coal distribution)	14	85	367

* A new society with six retail society members was registered in 1935 and is not included in these figures.

† The greater part of the co-operative bakery trade in Scotland is in the hands of the United Co-operative Baking Society, a specialist federal society with 243 members and an annual trade in 1935 of £1,237,000.

‡ Laundry work and dairying in Scotland are also undertaken by the S.C.W.S.

As regards economic function, there are two distinct types of local federal society, namely, those providing supplies or services which the member retail societies then distribute to their customers, and those which undertake a special retail service, dealing directly with the members of their component societies. Dairy societies are found in both categories: some, like the West Kent and East Sussex Co-operative Dairies, collect, pasteurize and supply bottled milk to the retail societies for distribution; others, like the United Co-operative Dairies (Failsworth), undertake the whole of the distribution of the milk from the farmer to the consumer. In areas, such as Durham and parts of Lancashire, in which there is considerable overlapping of retail societies, it is usual for federal laundries, dairies and bakeries to deal direct with customers. In this way, the loss which would result from overlapping delivery services is avoided. In the South, where there is little overlapping and retail societies are usually larger,

federal bakeries are rare; but federal laundries and dairies are fairly common, and in many cases the component retail societies undertake the final stages of distribution. An unusual form of local federal society, which occasionally occurs in areas in which overlapping is common, is that in which two or three competing societies in the same town will set up a federal undertaking to operate certain retail departments.[1]

The democratic control of local federal societies is discussed in Chapter 17. The organization of government and administration is very simple compared either with retail or with national wholesale societies. This is due to the fact that local federal societies are almost invariably concerned with only one line of trade. Higher control is in the hands of a Board appointed by the member societies, which usually meets monthly. The Board does much less detailed administration than is usual for co-operative Boards of Management; it confines itself to appointing the higher officials, examining trading results, and laying down general lines of policy. A local federal society is usually managed by a single general manager, and the plan of management resembles closely a trading or productive department of a retail society.

The sources of capital of a local federal society are, on a smaller scale, similar to those of the wholesale societies. The member societies must hold a certain minimum shareholding calculated on a basis laid down in the rules; they may, however, hold additional share or loan capital if they desire. Local federal societies supplying goods or services to retail societies follow the same plan for the distribution of surplus as the wholesale societies; the retail societies obtain their supplies from the federal society at wholesale prices and receive a dividend proportional to their purchases. When a federal society undertakes direct retailing, there has to be a somewhat different arrangement. The federal society usually distributes its surplus to each of its member societies in an amount proportional to the purchases of members of that society from the federal society—that is, it pays a uniform rate of dividend to all its member societies. Customers receive checks from the federal society which they subsequently exchange for checks

[1] For example, the Westhoughton Friendly and the Westhoughton United Co-operative Societies, both operating in a small town near Bolton, have set up a federal society to operate an outfitting shop. In the same way there is a federal coal society in Arbroath, serving the members of the three retail societies of that town.

of their own retail society to the same value. They thus obtain dividend on their purchases at the rate paid by the retail society of which they are members. In consequence, the retail society benefits or loses financially to the extent of the margin between the rates of dividend of the retail and the federal society. Normally, the federal rate of dividend is higher than that of the retail society, sometimes by as much as 2s. in the £. If, as is usual, the federal society undertakes its own advertising and sales promotion, the only expense on the part of the retail society is the small amount due to bookkeeping and arrangements for paying dividend. The major part of the margin is thus clear profit to the retail society. It can perhaps be considered as payment for goodwill; but it is doubtful how far retail societies should expect a federal society to subsidize their other departments.

The growth of local federal societies has been somewhat haphazard owing to the lack of any central organ to sponsor their formation. There are many cases where the establishment of a federal society would be advantageous, but where the need is not sufficiently pressing for any action to be taken by local retail societies. On the other hand, once a federal society is in being, it will often expand rapidly in membership. An example of this is the United Co-operative Laundries Association, which has already been mentioned. Recently, the C.W.S. has taken a more active part in the encouragement and development of local federal dairies and bakeries in certain districts. These societies are financed jointly by the C.W.S. and a number of adjacent retail societies. Their constitution and administration follow ordinary local federal practice, except that the C.W.S. has certain voting rights by virtue of its shareholding and in some cases is represented on the Board. It seems clear that, without C.W.S. capital and backing, the local retail societies in these cases would not have been prepared to take the initiative and face the risk involved in setting up a federal society. At present these societies are all successful.

The policy in relation to milk distribution is changing somewhat. There are two savings to be obtained from the local federal operation of dairies; economies in milk processing and bottling, and economies in final distribution. This latter economy is, however, only obtainable where several retail societies serve a single district, or where the individual retail societies are very small. The economies of bulk processing can be obtained just as well by a series of dairies operated by the national wholesale society. Consequently, in those areas in

which retail societies are able to undertake the final delivery of milk efficiently, the present policy of the C.W.S. is not to encourage the setting up of local federal dairies but to set up regional dairies itself, supplying milk to retail societies for final distribution. In this it is following the practice of the S.C.W.S., which has established a series of dairies throughout Scotland, so that there has been no need for the development of local federal dairies.

In recent years the scope of local federal societies has changed. Originally they were established chiefly as supply associations for retail societies. Owing to the centralized distribution of many lines of goods that were formerly sold through the local markets, and the increased scope of the national wholesale societies, almost all retail societies' supplies can now be obtained from the wholesale societies. On the other hand, there is an increasing tendency for local federal societies to undertake lines of trade direct with the consumer—e.g. milk and bread rounds, laundry service and sometimes pharmacy, funeral furnishing and coal delivery. Under modern conditions the area which will allow of the most efficient operation of a retail department differs widely for different lines of trade. The majority of retail societies are operating certain of their lines of business on too small a scale for maximum efficiency, and many are not operating some of these lines at all. The future of local federal societies probably lies in the direction of operating certain retail departments for their member societies, rather than in providing retail societies with supplies. An extension of funeral furnishing and pharmacy in this way is under consideration, and there is reason to believe that outfitting, central department stores, and possibly restaurants, might perhaps be more efficiently operated in some areas on a federal basis. If such federations are to develop in accordance with a national plan, a prior survey of market conditions is desirable, and where necessary financial support should be given by the wholesale societies. This question is discussed in Chapter 27.

CHAPTER 10

PRODUCTIVE SOCIETIES

THIS chapter of our report is not to be taken as a full or objective account of the group of societies known as productive societies. It is rather a view of them through the spectacles of consumers' co-operation and is limited to the bearing of those societies on the consumers' movement. The productive societies differ widely in economic character and constitution. Their main distinguishing feature is the existence of some measure of workers' control.[1] They are registered under the Industrial and Provident Societies Acts and each is governed by a Board elected by the membership. The relative voting strengths of the different classes of members are calculated in various ways, but one member one vote is a common practice. In most productive societies the majority of the workers are members, but membership of the society is not usually a condition of employment, and, taking the societies as a whole, about one-quarter of their workers are not members. In none of the societies, however, do members now consist solely of employees; in all, a considerable part of the share capital is held by outside individuals and by other organizations—a few trade unions but chiefly retail societies. This link with consumers' retail societies and the fact that the retail societies take a large proportion of their products, make some description of productive societies necessary in a treatment of the consumers' movement.

The business of the productive societies falls into three main groups —clothing, footwear, and printing. The societies in the first group are fairly small, with two exceptions: the Kettering Clothiers Ltd. and the Ideal Clothiers of Wellingborough. These two societies had, in 1935, 1,800 and 2,200 employees, and an annual trade of £507,000 and £730,000 respectively. In the case of Kettering Clothiers, the Board consists of seven employees, two outside individuals, and one representative of a retail society; in the case of the Ideal Clothiers, the

[1] The present Co-operative Union lists classify as "productive" all societies whose function is production, thereby including many consumers' federal societies. The Co-operative Productive Federation has a membership more nearly coterminous with what are here called productive societies, and this association insists on a measure of workers' control as a condition of membership.

FIG. 27

GOVERNMENT AND FINANCE OF PRODUCTIVE SOCIETIES

Analysed According to Industry, 1935

Industry	Number of Productive Societies in Each Group	Total Annual Sales (£000)	Per cent of Sales to Co-operative Retail Societies	Number of Societies in Group in which* A Clear Majority of Board are: Employees	Other Individuals	Representatives of Retail Societies	There is no Clear Majority on the Board	There are no Employees on the Board	There are no Retail Societies repr'd on the Board	Share and Loan Capital Held by: Employees (£000)	Other Individuals (£000)	Retail Societies (£000)
Clothing and Textiles	9	1,585	99·5	2	3	2	2	2	—	142	131	188
Footwear and Leather	18	682	83·5	14	—	—	2	—	14	111	90	105
Printing	18	231	55·7	—	7	—	8	—	7	13	55	352
Miscellaneous	9	145	—	1	4	1	3	2	5	9	19	12
TOTAL	54	2,643	—	17	14	3	15	4	26	275	295	657

* One or two smaller societies failed to provide information as to the composition of their Boards of Management. Consequently the first four columns do not add up to the total number of societies in the appropriate group.

numbers are three, two, and two, respectively. In both these societies most of the employees are members. The average annual value of output per society for the other seven societies in this group is about £50,000. With this may be compared the total clothing production of the C.W.S. in 1935, amounting to approximately £1,800,000, and the average output per factory of £180,000. All the societies in this group are closely dependent upon consumers' retail societies for their market, the only exceptions being two small silk-weaving societies which, although largely financed by retail societies, sell their goods to high-class specialist shops outside the movement.

The footwear societies are more uniform in size and there are none that stand out in the same way as the two clothing societies mentioned above. They are somewhat less successful financially and, out of eighteen, only nine were in a position to distribute a surplus after paying interest on capital and other expenses during 1935. During the period 1933–35, only nine each year showed an increase in trade. One society, the Leicester Anchor Boot and Shoe Society, went into liquidation in 1935. The proportion of employees on the Boards of these societies is higher than in the case of the clothing societies, but very much the same proportion of capital is held by retail societies. Although the percentage of sales outside the movement is somewhat higher than in the case of clothing societies, it is relatively small. The average annual volume of the output per society in 1935 was £40,000 and, as all are single plant societies, this may be compared with £580,000 per annum for the C.W.S. Leicester Works and an average of £230,000 per annum for each of the Society's seven factories.

There are eighteen printing undertakings, each known by the name of a town—e.g. the Birmingham Printers Ltd. These vary considerably in size, from the Leicester Printers, with an annual trade in 1935 of £80,000 per annum, down to the Long Eaton Printers with £1,700; the average trade per society was £13,000. The trade of most of these societies has been increasing slowly, probably not faster than the general increase in industrial activity, and in 1935 all except one showed a profit, although several did not distribute any surplus after paying interest on capital. The annual trade of these undertakings may be compared with that of the Co-operative Printing Society Ltd., a national specialist society with three plants, which reached £288,000 in 1935; also with £1,095,000, the amount reached by the six plants

of the C.W.S., the largest of these (Longsight) having an annual output of £436,000. A large part of the capital of the "productive" printing societies is held by retail societies, chiefly the retail societies in their localities, but the composition of the Boards suggests that they do not take much part in control. In contrast with clothing and footwear societies, printing societies do almost half their trade with customers outside the co-operative movement, part of this trade being with trade union and labour organizations.

The other nine societies undertake an assortment of trades—metalwork, boxmaking, building, etc., and several are semi-capitalist in form. The only one of importance is the Walsall Locks and Cart Gear Ltd., with an annual trade of £84,000.

The methods of distribution of profits vary. It is usual to pay a fixed basic rate of interest on share and loan capital; any surplus remaining, apart from sundry donations, is distributed between share capital (as an additional percentage); employees (as a bonus on wages); and customers (as a dividend on purchases). The two most successful productive societies (the Kettering Clothiers and Ideal Clothiers) pay a *total* dividend on share capital of $5\frac{7}{8}$ and $6\frac{7}{8}$ per cent., a bonus to employees of 10d. and 1s. 6d. per £ on wages, and a dividend to purchasers of 6d. and 9d. in the £, respectively. In a few societies interest on share capital rises as high as 10 per cent., but in most cases it is about 5 to 7 per cent.

The majority of productive societies are members of the Co-operative Productive Federation, which is a defence organization protecting the interests of productive societies, advising them, and undertaking propaganda for them. It draws up model rules and makes a measure of employees' control a condition of membership. Forty-four societies are members of the Federation, which is itself a registered society under the Industrial and Provident Societies Acts and a member of the Co-operative Union. The Federation operates a successful joint invoicing scheme whereby customers may pay accounts with any of the member-societies through the agency of the Federation. About 13 per cent. of the trade of the member-societies is now dealt with in this way.

Retail societies play a considerable part in the control of productive societies, especially the larger clothing and footwear societies. The quarterly meetings are usually held on a Saturday afternoon, as in the case of the larger local federal societies, and many of the member

retail societies send delegates. The other interests, those of the workers and other shareholders, are of varying importance in different societies.[1] The relations of retail societies to productive undertakings are fairly friendly, and the demand for "loyalty to co-operative productions" is often taken to include the goods of productive societies. Towards the end of the last century, the national wholesale societies held shares in productive societies and obtained part of their supplies from them.[2] To-day, however, the C.W.S. holds a nominal interest in only one society—undertaking silk manufacture; it obtained supplies, in 1935, from four societies, in negligible quantities in two cases, to the extent of £11,000 from a silk manufacturing society (not the one in which it holds shares) and to the extent of £400 from the Walsall Locks and Cart Gear Ltd. There is a "concordat" between the Wholesale Societies and members of the Co-operative Productive Federation by which they agree not to attack each other in public statements. This agreement is not always completely observed, however, and it must be recognized that the relation between the productive societies and the wholesale societies is one of direct competition for the custom of the retail societies.

How does the mixed control of productive societies affect the method of operation and especially the maintenance of efficiency of the undertakings when compared with consumers' control? First, in those cases in which the influence of the employees predominates, the usual difficulties of workers' control are apt to arise, difficulties of discipline and conservatism of technique.[3] On the other hand, the productive societies are only able to maintain a reasonable volume of trade and to achieve financial success by waging successful competition with other producers, including the wholesale societies. In consequence, the stimulus of competition is probably stronger than in the case of consumers' federal societies. Further, as compared with the wholesale societies, productive societies are specialist organizations, which may result in more adequate managerial and technical equipment and in better attention to the peculiar conditions of the trade. This is an advantage which these societies share with local specialist federal societies.[4] The difference of constitution is likely to have a still greater influence on general policy. In some cases, where retail societies play a major part in control, consumers' interests may be

[1] See Fig. 27.
[2] See Chapter 1, p. 37.
[3] See Chapter 19, § 3.
[4] See Chapter 9.

dominant, but as a whole it is probable that these societies will respond mainly to producers' interests, that is to say, will aim primarily at securing the largest possible surplus. The main consequence may be a greater superficial responsiveness to consumers' demand than in the case of consumer-controlled societies, but on the other hand, productive societies in their desire to maintain producers' interests may favour political and economic changes that are likely to result in higher prices for their products. They can form no defence of consumers' interests. Finally, the organization of productive societies does not result in a co-ordinated policy. Societies are only likely to be founded where there is a considerable chance of financial success, and, as in competitive capitalism, success is likely to lead to the formation of a number of competing undertakings, all below the optimum size, rather than the organization of production to meet consumers' needs most efficiently.

It is not possible here to enter into any exhaustive discussion of the relative merits of employees' versus consumers' control. The main argument advanced in favour of the "productive" form of organization as against the forms of control found in the consumers' movement is that it leads to an improved status of labour in the undertaking, and a balance between consumers' and workers' interests. "Consumers' control" does not, however, lead to domination by consumers interests only; in fact, as is suggested later, employees' influences even in consumers' societies may sometimes be excessive.[1] The question arises, whether the more direct and more regular participation of employees in the control of productive undertakings is likely to be exerted more responsibly than the incidental and indirect influences which they can exert in the consumers' movement. It is almost impossible to answer this question on the evidence available; the different scale of operation and the different range of production make comparison between consumers' and productive societies impossible.

The survival of the productive societies is largely due to their having a protected market in the retail societies. They are specialist undertakings and thus sometimes have an advantage as compared with the wholesale societies. Their relation with the consumers' movement is one of tradition rather than affinity.

[1] See Chapter 19, § 3.

CHAPTER II

AGRICULTURAL CO-OPERATIVE SOCIETIES

In Chapter 2 attention was called to the confusion caused by the popular use of the word co-operative. In particular it was noted that confusion arises in connection with certain agricultural societies, registered under the Industrial and Provident Societies Acts, which are usually referred to as co-operative societies, and indeed often employ that description in their titles. Since it was said in the second chapter that this book is confined to an investigation of the consumers' co-operative movement, some explanation is required when a chapter is devoted to these agricultural societies. The reason is neither that they are called co-operative societies in the usual but wide sense of that term, nor that they are registered in the same manner as the units of the consumers' co-operative movement, but that they have come in the course of time into fairly close relations with that movement.

Co-operation for the purchase of requisites and for the sale of products has long been recommended to farmers as a solution of some, at least, of their difficulties. The plan is simple in outline. If the farmers in an area combine to maintain an organization for the purchase of requisites, they will be able to give large orders and so purchase at cheap rates. Similarly, if they maintain an organization for the sale of products, they will save by the pooling of delivery charges and by cutting out the profits of the middleman. In both cases they will also be in a good bargaining position. In many countries, notably Denmark, agricultural co-operation has gained a strong hold. Progress has been slow in this country. But, owing in part to the foundation of the Agricultural Organization Society in 1901, it has advanced in recent years. This Organization was terminated in 1924, and since that date there has been no organizing authority for agricultural societies in England, though such authorities exist both in Scotland and Wales. It is true that the National Farmers' Union has nominally undertaken the supervision of agricultural co-operation, but no great interest or energy is exhibited in this side of its work.

The pioneers of agricultural co-operation in this country had little in common with the pioneers of consumers' co-operation. The link

between the two movements is not to be found in any sharing of early ideals or of any common objective. It is indeed of fairly recent date and was formed because the C.W.S. manufactures many products, such as feeding stuffs in the course of milling, which agricultural requisite societies set out to buy, while the consumers' movement buys very large quantities of those products which agricultural marketing societies have for sale. The two movements have also been brought together because the consumers' co-operative movement is disposed to look with favour upon transactions with organizations which are co-operative in the wide sense of the term. Again the absence of any Agricultural Wholesale Society in England has led them to look towards the C.W.S.; they have had to establish themselves in a world which, except for the C.W.S., was indifferent if not hostile to them.

It is not necessary to describe in detail the constitution of the agricultural societies. It is enough to say that, while in form the same as that of any unit of the consumers' co-operative movement, an agricultural society in fact bears little resemblance to a retail society. The societies elect a committee and appoint a manager. As long as things go well, the members are inactive in matters of general policy. They are, however, in constant touch with the manager, who is fully aware of their views, and, as in the case of a limited liability company, when things go badly, there is trouble. For the agricultural societies are business concerns. What matters to us here is their relations to the consumers' co-operative movement, and we may consider requisite societies first.

Any requisite society can become a member of its appropriate wholesale society and most of them are members. They can obtain from the wholesales, not only feeding stuffs, but also seeds, fertilizers, churns, carts, ropes, scales, twines, paint and varnish. In late years the C.W.S. has done much to develop its Agricultural Department. Many agricultural societies bank with the C.W.S. which also undertakes auditing. When the Agricultural Wholesale Society failed in 1924, many societies were involved in heavy losses. The C.W.S. came to the assistance of several of the more promising among them, treating them as it treats retail societies which are in difficulty. That is to say, they were granted credit, but placed under C.W.S. supervision. A few of them are still in that position. They value their connection with the C.W.S. because it displays a friendly attitude in

contrast to the opposition, often embittered, from merchants, some of whom have done all they can to obstruct them. Indeed it is fairly widely recognized among those responsible for these societies that the backing of the C.W.S. secures them from boycott and unfair treatment by groups of merchants.

It might perhaps seem that there is no need for requisite societies. If farmers want to obtain supplies from the consumers' co-operative movement, they can join their local retail society and obtain them through that channel. Some farmers are members of their local retail society and get household requirements in that way. But there are three reasons, each sufficient in itself, for the continued existence of farmers' requisite societies, at least for the present. Farmers want an organization to buy for them in the cheapest market, and if they had no society of their own, they would be unable to purchase collectively from non-co-operative sources. Secondly, the provision of agricultural requisites is a specialist function, and there is a strong case for a separate organization with an experienced manager who can advise farmers concerning purchases for particular purposes. Thirdly, the political situation is such that there is no immediate possibility of all farmers joining their retail societies. To a good many farmers, with their traditional conservative allegiance and rural background, the consumers' movement still appears as an urban organization of self-assertive wage-earners with advanced ideas. It is noteworthy that, just as few farmers join retail societies, so few agricultural societies join the Co-operative Union. The Union seems to them an irrelevant body, given to passing resolutions and inspired by ideals different from those which inspire themselves. The C.W.S., on the other hand, appears as a business-like concern, and they feel on safe ground when dealing with it. Thus, for the present at any rate, the only workable mechanism, through which farmers can get supplies from the consumers' movement, is a network of requisite societies dealing with the C.W.S.

The relations between agricultural marketing societies and the consumers' movement are less close and less well defined. Some marketing societies sell to local retail societies and several sell to the wholesales. The egg and fruit societies have perhaps most dealings with the movement. The Framlingham and Eastern Counties Co-operative Egg and Poultry Society, one of the largest in the country, sells a third of its output to the movement. The Littleton and Badsey

Growers, one of the most successful fruit societies, is a member both of the C.W.S. and of the Co-operative Union. Wool marketing societies, on the other hand, though a successful type of marketing society, have little connection with the movement; they only deal in unwashed wool, and consumers' organizations usually buy their wool at a later stage. The situation in regard to the marketing of other agricultural produce is complicated by the official marketing schemes, of which more will be said later.

The relation between the consumers' movement and the agricultural societies is a more important matter than appears at first sight. The C.W.S. owns 26,000 acres of farming land, and many local societies possess farms. But the amount of agricultural goods directly produced by the movement is negligible in comparison with the amount of home-produced goods passing through co-operative channels. Thus in 1935 the total agricultural production of the movement was valued at £918,000, whereas the co-operative trade in milk alone amounted to £15 millions. Further, it is quite clear that the consumers' movement has no intention of expanding direct agricultural production; therefore, since farming under State auspices has no advocates in this country, the movement must contemplate a system under which independent producers of agricultural supplies will continue to exist. These producers are increasingly anxious to obtain their requisites unburdened by unnecessary middlemen charges. They have two choices. They can attempt to go into production of requisites themselves, or they can obtain them through the C.W.S. The first course involves large expenditure of capital and much risk. The second is to share with the consumers' movement its productive and wholesaling organization. A start has been made in this direction, and there is no reason why the independent agricultural producers should not be able to obtain the bulk of their requisites under satisfactory conditions in this way. Now that the C.W.S. has reorganized its Agricultural Department, the consumers' movement is ready to play its part; it remains for the agricultural producers to take full advantage of the opportunities which are open to them.

The interests of agricultural marketing societies and the consumers' movement are not so obviously coincident. The object of the former is to get as good a price as possible, and of the latter to buy cheaply. It has been said that there is an unreconcilable conflict of interest; while this is not true, it is the case that the consumers' societies tend

to look upon the farmers' societies as merely out to raise prices, and that the latter tend to regard the former as over-anxious to buy cheaply. But, although suspicions of this kind make relations difficult, there is no fundamental bar to satisfactory working arrangements. The movement is not opposed to organizations formed for the purpose of bargaining; in fact it has imposed organization upon its employees for this purpose. Therefore it would welcome, rather than object to, dealing with organized agricultural producers. The latter have in any case to face the necessity for selling to organizations, and organizations of middlemen are not disposed to favour organizations of producers. Indeed, cases are common enough in which the merchants attempt to short circuit the marketing societies and deal directly with individual producers, thus undermining the foundations of organized selling. The agricultural societies are finding by experience that they have in the consumers' movement a fair-minded customer who disdains these tricks, and there is no reason why relations between the two should not be greatly extended to the advantage of both.

Chapter 12

THE CO-OPERATIVE UNION

The Co-operative Union is of central importance to the whole co-operative movement, influencing not only its trading activities but also its educational, social and political life. This body is itself a co-operative society, registered under the Industrial and Provident Societies Acts. It is, in fact, a federal undertaking like the C.W.S. It is not primarily a trading concern, but rather an inclusive association of co-operative societies, and it has, in this capacity, five main groups of functions. In the first place, it formulates policy, speaks on behalf of the movement, and acts as a defence organization. Secondly, it provides a framework, both locally and nationally, for discussion and the formation of opinion. Thirdly, it assists in the settlement of disputes between constituent societies or groups within the movement without recourse to law. Fourthly, membership of the Union provides a guarantee of the co-operative character of member societies. Fifthly, the Union provides a range of specific services to its members, including technical assistance, legal, labour, agricultural, statistical, educational and financial advice, and publicity services.

Practically all the members of the Co-operative Union are societies registered under the Industrial and Provident Societies Acts, although the rules allow corporate bodies of other types, including joint stock companies, to be members. Membership is, however, limited to undertakings "which have for their objects the promotion of co-operative principles and ideas" and which conform to certain standards. Thus Rule 8 of the Co-operative Union lays down certain general principles —the abolition of false dealing, the equitable distribution of trading surplus, the prevention of waste by elimination of competition, and so on. These principles are, however, phrased in such general terms that they are not of much value as a test to apply to individual undertakings. What is, perhaps, more significant, is Rule 9, which requires that the management of affiliated societies shall be of a representative character, thus excluding undertakings in which members' control is non-existent. The Executive Committee of the Union is responsible for scrutinizing all applications for membership.

The membership of the Co-operative Union does not correspond

precisely to the consumers' co-operative movement. It also includes almost all the productive societies, some of the agricultural societies, and a few non-trading organizations—professional associations and societies for propaganda. Out of the total number of members of the Co-operative Union, however, 1,037 are retail societies, and fifty-one are consumers' federal societies; and both the control and the financing of the Union are, to an overwhelming extent, in the hands of consumers' organizations.[1] It will be seen that a large proportion of the 1,135 retail societies registered with the Registrar for Friendly Societies are members of the Co-operative Union; those standing outside are chiefly the smaller societies; actually, 97 per cent. of co-operative members are members of retail societies affiliated to the Co-operative Union. In spite of the diversity among member societies the Co-operative Union is predominantly an organ of the consumers' movement and in particular of the retail societies.

The Union is financed chiefly by subscriptions from its member-societies; the shareholding requirement is merely a nominal 5s. share. The subscriptions of retail societies are proportional to the membership, calculated on the basis of 2d. per member per annum. The subscriptions of other classes of societies are fixed from time to time by the Executive Committee of the Union. The proportion of the Union's income drawn from these various sources is as shown in the following table.

FIG. 28

PARTICIPATION OF DIFFERENT TYPES OF CO-OPERATIVE SOCIETIES IN THE FINANCE AND CONTROL OF THE CO-OPERATIVE UNION, 1935

	Total Subscriptions £	s.	d.	*Delegates to Congress*	*Voting Strength in Elections and on Card Vote in Congress*
Retail Societies	52,728	14	9	2,231	7,594
Local Federal Societies	64	8	0	22	22
C.W.S.	900	0	0	24	108
S.C.W.S.	212	0	0	12	24
Federals attached to Wholesale Societies (C.I.S., E.& S.C.W.S.)	80	0	0	12	8
Other National Federals (C.P.S., Co-operative Press, etc.)	70	2	0	11	11
Agricultural Societies	5	8	0	4	4
Productive Societies	244	18	0	57	61
Special Associations	151	10	0	56	56

[1] See Fig. 28.

The final authority of the Co-operative Union Ltd., like any other Industrial and Provident Society, is the members' meeting, which takes the form of the annual Co-operative Congress. Member societies may send from one to twelve delegates, retail societies being allowed one for the first 1,000 members and one for each additional 5,000 members up to 26,000 members; above this number an extra delegate is allowed for each 50,000 members up to a maximum of twelve. Voting at Congress is by show of hands or, if desired, by a card vote, retail societies having one vote for each 1,000 members. The relative voting strengths of the various types of society is shown in Fig. 28. Congress has certain constitutional duties to perform in relation to the affairs of the Co-operative Union. It has to receive the report of the Central Board and its committees, to receive and pass the accounts, to elect an auditor, and to consider and vote on any proposed changes in the constitution of the Union. Because it is the most representative gathering in the co-operative movement, Congress has acquired an importance far greater than that which it possesses merely as the annual business meeting of the Co-operative Union. Its main task is to receive the very detailed report of the Central Board of the Union; but in the discussion of this report, its deliberations cover almost all aspects of co-operative policy.[1]

For the administration of the work of the Co-operative Union the country is divided into nine sections. A sectional board is elected by each section, which is divided, for the purpose of election, into electoral areas. Candidates are nominated by the member societies in each electoral area, but voting takes place over the section as a whole. Societies have the same voting power as is accorded to them for the card vote in Congress. The following are the names of the different Sectional Boards, with the number of members:

Midland Sectional Board	11
Northern Sectional Board	7
North-eastern Sectional Board	8
North-western Sectional Board	13
Scottish Sectional Board	10
Southern Sectional Board	11
South-western Sectional Board	6
Western Sectional Board	6
Irish Executive	8

[1] The position of Congress as the national focus of co-operative democracy is discussed in Chapter 18, § 2.

The members of the nine Sectional Boards meeting together form the Central Board,[1] a body of seventy-four members which meets twice during the period of Congress and on two other occasions during the year. The Central Board is constitutionally the management committee of the Co-operative Union Ltd., but the effective management of the Union is in the hands of the Executive Committee, a body of ten members comprising the Chairman of the Central Board and one representative elected from each Sectional Board. This Committee meets monthly and is responsible for administering the affairs and finances of the Union and for the appointment of the higher permanent staff.

The Sectional Boards, in addition to making up the Central Board, have important individual responsibilities. They meet at least monthly. Each Board, except the Western and South-western, employs a full time secretary, who works under the direction of the Sectional Board and in close contact with the Manchester offices of the Union. The main responsibility of the Sectional Boards is to encourage co-ordination between the societies in their section, and in this connection they deal with boundary disputes; they also assist in propaganda, supply speakers to District Association Conferences, and encourage societies in establishing new services. Since 1934, the Sectional Boards have taken a considerable responsibility in relation to the Ten Year Plan.[2] There is in each section an Annual Sectional Conference at which the draft report of the Sectional Board is received, together with the reports from delegates representing the section on other associated bodies. This meeting, like Congress, acts both as an organ of criticism of the work of the Board and also as a centre for general discussion of co-operative policy.

Each section except Ireland is divided into from four to eleven District Associations. These are administered by District Committees, usually of about eight members each, elected by the societies in the District, and each appoints an honorary secretary. They organize periodic district conferences on a wide range of business topics. The District Association is a convenient local unit, and while its importance in relation to the section varies in different areas, it is often considerably used for local discussions of co-operative policy, and it is also usually made the unit for labour agreements.

[1] The Irish Executive, which corresponds to the Irish Sectional Board, appoints only two of its members on to the Central Board.

[2] See Chapter 27, § 3.

This machinery serves the double purpose of controlling the general policy of the Union through its Central Executive and also of giving local effect to this policy. The fact that one of the functions of the Union is to promote discussion ensures a considerable measure of democracy in the administration of its affairs.

The Co-operative Union is, in effect, an association of retail societies, in spite of the inclusion of other types of society in its membership. The composition of its controlling committees shows the extent to which it is subject to retail society control. Out of the 74 members of the Central Board, 50 are present members and 11 are past members of the management committees of retail societies; 7 are permanent officials of retail societies and one is a past official; and one member is an official of a productive society. The remaining four members are either members of education committees or are prominent members of retail societies without being on the management committee. There are no C.W.S. directors or officials and no members of agricultural societies on the Central Board.

The central activities of the Union, controlled by the Executive Committee, are administered on a departmental basis. For this purpose, the Union employs a considerable permanent staff at Holyoake House, the Manchester offices of the Union. The Executive has under its direct control the Legal, Financial, Research, Publications, Labour, and Agricultural Departments. There are certain other departments—Parliamentary, Propaganda and Trade, Educational, and Trade Associations—which are controlled by joint committees with representatives of other co-operative bodies.

The Legal Department gives advice, general and special, to the member societies on all questions of law which affect the operations of co-operative societies. In dealing with legislation it may be considered necessary to bring forward and finance test cases where it seems likely that the law may press unfairly upon the movement. By letter, by telephone, or by personal visits, societies bring to the Union's solicitor the legal problems which arise in their own areas. The solicitor attends at Holyoake House and at the Northern and Southern Section branch offices to give advice personally. Owing to the differences of Scottish law, the Union also has a Scottish legal adviser, stationed in Glasgow. These two consulting solicitors are appointed annually by the Executive Committee of the Union. Model rules, suitable for all types of societies and acceptable to the Registrar,

are available for the use of affiliated societies. Special rules are drafted by the Legal Department at the request of societies. An important part of the regular work of the Department consists in giving interpretations of existing rules.

The Finance Department, in addition to keeping the Union's accounts and funds, endeavours to secure uniformity in the keeping and presentation of societies' accounts, and gives advice on investment, rating, income tax assessments, and on trading, check systems and leakage accounts. Recent legislation has increased the work of this department in connection with taxation.

The Research Department collects figures of membership, share and loan capital, assets and liabilities, trade and credit to members from the annual returns of member societies; these are assembled for individual societies and regions, and published in the statistical appendix to the annual report of the Co-operative Union. The department also compiles an index of co-operative prices, and furnishes, on request, special departmental trade returns and information representing wages costs. It furnishes statistics to the Bank of England for inclusion in their survey of retail trade operations. This department is now being extended to undertake research into co-operative trading.

The Publications Department is a service department which touches every side of Co-operative Union activity. Textbooks are supplied for the use of students, and reference books for the use of committees and co-operators generally; trade and publicity campaigns are backed by appropriate literature and posters; technical periodicals are published; there is a news service which puts the co-operative point of view and supplies information to co-operative periodicals. The Union also acts as publisher for the literature of the Co-operative Party. Two annual publications which are of particular value to students of the co-operative movement are the *Co-operative Directory*, containing a complete list with addresses of all co-operative societies and associated organizations, and *Co-operative Statistics*, based on returns made by societies.

The Co-operative Union has at its central offices a Labour Department which advises member societies in their capacity as employers of labour, dealing not only with problems of labour peculiar to co-operative societies, but also advising on general employment questions, Trade Board legislation, welfare and superannuation

schemes, recruitment of staff, and so on. In addition to providing this service through its central office, the Union provides, through the District Hours and Wages Boards, the basis for collective bargaining in which the retail societies participate. Participation is voluntary, and those societies in each district which associate themselves with the scheme elect a District Hours and Wages Board, which acts as an Employers' Association within the district, negotiating with the unions concerned.[1] In some cases there have also been set up Sectional Councils containing representatives of the District Hours and Wages Boards and of the Sectional Board of the Co-operative Union. In some areas, permanent conciliation machinery exists which is described in Chapter 21.

The Agricultural Department deals not only with all problems affecting the staple commodities in which the movement is transacting business, but also with technical and advisory services to societies in connection with their marketing of regulated commodities, legal and quasi-legal control of processing and preparation, and the agricultural operations of societies. The range of these services covers dairy equipment, slaughterhouses, land tenure, farming operations, drainage, public health conditions, marketing schemes, quota regulation and general agricultural policy, from the point of view of the consumer co-operatives.

The work of the Department has increased in recent years as a result of the initiation and conduct of national marketing schemes and the inauguration of co-operative trade associations dealing with commodities like meat, milk and bacon.

The Parliamentary Committee of the Co-operative Congress was originally a committee of the Union responsible to Congress but is now composed of representatives from the Union and other co-operative organizations. The composition of the Joint Committee is as follows:

8 from the Central Board of the Co-operative Union (one from each of the Sectional Boards, but not from the Irish Executive. At least one must be a member of the Central Executive);

[1] The District Hours and Wages Boards must be distinguished from the District Association Executive, being separately elected, although often having an overlapping personnel. In 1933, 56 per cent. of the retail societies, containing 75 per cent. of the total co-operative membership, were affiliated to Hours and Wages Boards. See pamphlet, *Hours and Wages Boards*, by Frank Jones (published by the Co-operative Union).

2 from the Co-operative Wholesale Society;
2 from the Scottish Co-operative Wholesale Society;
1 from the Co-operative Productive Federation;
1 from the Co-operative Secretaries' Association;
1 from the Co-operative Managers' Association;
2 from the Co-operative Party (at least one to be an M.P.).

The Committee has a secretary and staff with offices at Westminster, and undertakes the duties of a parliamentary agency, scrutinizing proposed Bills, Orders and Regulations which may affect the interests of co-operative societies. Deputations to government officials are sponsored and evidence prepared; representation of co-operative interests upon Departmental Committees and Royal Commissions is sought. Recent legislation affecting trading and commodity marketing has increased the scope and importance of the Parliamentary Committee's duties.

The Joint Propaganda and Trade Committee is an important joint committee of the Union and consists of eight members, half from the Central Board of the Co-operative Union, half from the Board of the C.W.S. It supervises propaganda work in backward co-operative areas, providing literature and a loudspeaker van service. It arranges propaganda meetings as required and organizes an annual National Co-operative Propaganda Campaign. The organizing of the co-operative "Ten Year Plan", which is discussed in Chapter 27, is also a responsibility of the Joint Propaganda and Trade Committee. Perhaps the most fruitful work of this committee—which for this purpose is enlarged by the addition of two representatives each from the Co-operative Secretaries' Association, the Co-operative Managers' Association, the Co-operative Productive Federation, and one representative from the S.C.W.S.—is the organizing of a series of Trades and Business Conferences. Two subjects are chosen each year and speakers selected. Conferences are held in various convenient centres at which the two speakers read papers. These conferences are attended by societies' secretaries, managers and other responsible employees and by committee-men. The papers presented are published as booklets and contain much useful material.

The educational work of the Co-operative Union is supervised by the National Educational Council and the Education Executive. The Council is composed as follows:

One representative from each of the nine Sectional Boards;
One representative from each of the eight Sectional Educational Associations;
And one representative each from

The English Women's Guild,
The Scottish Women's Guild,
The Irish Women's Guild,
The National Co-operative Men's Guild,
The Scottish Co-operative Men's Guild,
The National Guild of Co-operators,
The Co-operative Managers' Association,
The Co-operative Secretaries' Association,
The National Union of Distributive and Allied Workers,
The British Federation of Co-operative Youth.

This Council meets quarterly and receives the report of the Educational Executive, which is appointed by the National Educational Council and consists of ten members, five of whom (including the Chairman) must be members of the Central Board of the Co-operative Union. These committees control the Educational Department of the Union which endeavours to co-ordinate the various educational activities within the movement. It directly controls the Co-operative College, employs travelling teachers in certain areas, maintains a national examination system, and organizes summer schools and educational week-ends. Technical instruction is administered by the Joint Committee for Technical Education, consisting of four representatives of the Education Executive and four representatives of the C.W.S. Board. In each section of the Union except Ireland there is a Sectional Education Committees' Association, to which are affiliated local Guild branches and the Education Committees of co-operative societies in the section. These Associations appoint representatives to the National Educational Council; they have no other constitutional powers in relation to the Education Department of the Co-operative Union. Their function is to organize local educational work; they are becoming more active,[1] and have established a National Association of Co-operative Education Committees. This body is not part of the structure of the Co-operative Union. Although it was originally purely advisory, it is now undertaking more positive work.

[1] Some Associations have registered themselves as societies under the I. and P. Acts and have obtained membership of the Co-operative Union.

A fairly recent development, but one of considerable importance, has been the development within the framework of the Co-operative Union of certain Trade Associations. Those at present existing are the Co-operative Milk Trade Association, the Co-operative Coal Trade Association, the Co-operative Drug Trade Association, and the Co-operative Meat Trade Association. The associations are largely autonomous, although they are committees of the Union and are financed by it. In the case of the coal and milk trades, there are regional (usually sectional) executives appointed by societies in the areas which undertake these lines of business. The regional executives also contain representatives of the C.W.S. and the Co-operative Union and appoint a national executive for the Association. These executives examine matters affecting the well-being of their trade, sponsor advertising efforts—usually in collaboration with the Publicity Departments of the Co-operative Union and the C.W.S.—and undertake, where necessary, negotiations with the trade outside the co-operative movement. The work of the associations is subject to examination and criticism by societies' representatives both locally and nationally in that the reports of the sectional and national trade association executives are incorporated in the reports of the Sectional and Central Boards respectively of the Co-operative Union. The Meat Trade Association was brought into being as a result of a resolution at the 1936 Congress. It was a direct succession of the Co-operative Retail Butchers' Association, which was independent of the Co-operative Union. Its form of organization follows the same general lines as the Coal and Milk Associations. The Drug Trade Association is more simply organized, and its main contribution has been to create a panel of experts in the employment of the movement who have been able to advise on the technical problems arising in connection with the extension of the co-operative drug trade.

Finally, mention must be made of the National Co-operative Authority, which is representative not only of the Co-operative Union but also of the C.W.S., the Co-operative Productive Federation, the Co-operative Party, and the Co-operative Press, thus incorporating every section of the co-operative movement. The duty of the Authority is to discuss and decide co-operative policy on current national issues affecting the movement, and it has power to make decisions on matters of national policy arising between Congress, subject to agreement by at least a two-thirds majority. The decisions

of the Authority are carried into effect by the Co-operative Union and a report of the Authority's work during the year is contained in the Central Board Report of the Union. The National Authority is constituted as follows:

The Executive Committee of the Union,
4 representatives from the C.W.S. Board,
2 representatives from the S.C.W.S. Board,
1 representative from the Co-operative Press,
1 representative from the Co-operative Productive Federation,
2 representatives from the Co-operative Party.

The Co-operative Congress is the organ for the democratic control of the Co-operative Union and is the major deliberative assembly in the co-operative movement. The Central Executive is the permanent governing body of the Co-operative Union. The National Authority is a committee, representative of the most important policy-making bodies in the co-operative movement, which determines matters of policy affecting the whole movement, needing to be settled between the meetings of Congress.

The Co-operative Party must be distinguished from the Parliamentary Committee, which has already been discussed. The latter is primarily concerned with defending co-operative societies as trading organizations; the Co-operative Party exists to forward the political and social aims of the movement and to secure co-operative representation in Parliament and on local authorities. The Co-operative Party is a distinct political party with a separate fund, and is supported only by such bodies as are affiliated to it. These do not include all of the societies which are members of the Co-operative Union, but do include bodies, e.g. the Guilds, which are not directly members of the Union. Nevertheless, the executive of the Party is responsible to the Central Board of the Co-operative Union which is responsible financially for the Party's Central Office and Staff.

There were, in 1935, 485 retail societies affiliated to the Co-operative Party. They are chiefly the larger societies; while 4,500,000, or 64 per cent., of the total co-operative membership were members of societies affiliated to the Party, these represented only 485 out of 1,106 societies, or approximately 44 per cent. of the total. Affiliation is more usual among societies in urban than in rural areas. The 4,500,000 given as the membership of affiliated societies must not, of course, be taken

as the membership, or the potential voting power of the Party. The vast majority of co-operators are members of their societies as trading concerns, and have no interest in their political affiliations; a great many are attached to other political parties.

The local administration of the Co-operative Party is usually in the hands of a political council, although very occasionally the management committee of a retail society will undertake this responsibility. In some cases the council is attached to an individual retail society. But in towns and boroughs it is usual for a single council to act as a unit for the area; finance in this case will be drawn from affiliated societies in the area, and the council will be composed of representatives of affiliated societies, elected at the members' meeting, and also of local branches of the Guilds and other auxiliary bodies. In the more active centres a full-time staff is employed by the council. This is usually the case in areas in which a co-operative candidate is in the field. Federations have, in some cases, been established covering larger regions to allow of co-ordination and discussion between the local councils.

The central administration of the Party is carried on with a headquarters staff established in London. The National Committee of the Co-operative Party, which is subject to Congress and the Central Board of the Union, is constituted as follows:

9 representatives of the Central Board (one from each Section);
9 representatives of societies contributing to the Co-operative Political Fund (one member from each Section, appointed by the contributing societies in the Section);
1 representative from the National Educational Council;
2 representatives from the C.W.S.;
1 representative from the S.C.W.S.;
1 representative from the Co-operative Productive Federation;
2 representatives from the Joint Parliamentary Committee;
1 representative of the Women's Co-operative Guild (England and Wales);
1 representative of the Scottish Co-operative Women's Guild;
1 representative of the National Co-operative Men's Guild.

The Party programme follows very similar lines to that of the Labour Party, but differs from it in certain ways, particularly in its banking and foreign trade policy. A Labour and Co-operative alliance has existed since 1927, and while the two Parties remain independent,

certain arrangements have been made for their closer co-operation. A joint sub-committee with limited powers has been established representing the two Party executives. There is an exchange of minutes between the two national executives. From time to time joint campaigns are arranged, and the two Party executives act together on matters of importance. This agreement aims at preventing the nomination of Co-operative and Labour candidates in opposition to each other. In the constituencies in which co-operative candidates have stood for parliamentary elections, they have appeared as Co-operative and Labour candidates. The actual number of Co-operative members of Parliament has never been great. Ten were elected in 1929, one in 1931, and nine in 1935.

Chapter 13

EDUCATION

As with the trading side of the movement, the basis of the educational organization is local; and just as the trading activities of the wholesale societies are limited by those of the retail societies, so the work of the national educational bodies is limited by the extent to which the retail societies exert themselves in the field of education. For the function of the national bodies is to give advice and assistance to local societies. Out of the 1,096 retail societies in 1935, only 585 made grants for education; but the aggregate membership of these 585 societies was 6,729,000, or 90 per cent. of the total membership of the movement. This position arises because the large societies all make grants, whereas many of the smaller societies do not. Of the 585 societies making grants, only 480 appointed education committees: when a society undertakes education without appointing a special committee, the board of management supervises the work; and, even when an education committee is set up, the board of management sometimes retains technical education in its own hands. Education committees usually consist of eight to twelve persons who are in most cases all elected by the members of the society at a quarterly meeting. In some societies, however, the management committee appoints representatives to the education committee, and occasionally the Guilds and other bodies are also given this right.

The composition of certain national and federal educational bodies, including the National Educational Council, the Education Executive and the Sectional Education Committees' Association, the last-mentioned being found in each section of the Union, have been described in the preceding chapter. To complete the list of national organizations, mention must be made of the Joint Committee for Technical Education, consisting of representatives of the Educational Executive and of the Co-operative Wholesale Society. There are also certain other national and federal bodies, such as the Education Secretaries' Association, which are outside the structure of the Co-operative Union in the sense that they have no executive functions entrusted to them by the Union. Every year, two months before the meeting of the Co-operative Congress, an Educational Convention is

held, which is attended by representatives of the education committees and other bodies. It discusses educational policy, and though it has no powers, its recommendations have considerable influence upon the policy adopted by Congress.

The National Association of Co-operative Education Committees is growing in importance; it seeks to present a coherent and progressive educational policy and to press its views upon the executive bodies. It works in close contact with the Education Secretaries' Association. The secretaries, some of whom are full-time officials, occupy key positions on the educational side of the movement. They have organized themselves primarily to discuss problems relating to the specific duties which they have to perform, but they also discuss general policy, and their views carry weight. Finally mention should be made of the Co-operators' Education Fellowship which seeks to organize on a national basis those who are interested in co-operative education.

The gross expenditure by the movement on education in 1935 was about £277,000 and the net expenditure about £269,000. The difference between the two sums is accounted for by certain receipts, mostly through fees and the sale of literature, which accrue to the central bodies. Of the £277,000 no less than £250,000 is expended by retail societies directly. But this does not represent the total expenditure of these societies; for the Education Department of the Co-operative Union spends about £10,000, and the Union is financed to a large extent by the societies. The expenditure upon education by the national bodies is small; the Co-operative Wholesale Society spends £4,200, of which £1,500 goes to the Joint Committee on Technical Education and the rest to the expenses of a lecture scheme for its employees and to bursaries, while the federal and productive societies spend £5,000 on bursaries and grants.[1] Though the total is impressive, it only represents 8·9d. per member of the societies making grants. The Royal Arsenal Society, the second largest in the country, had the highest expenditure on education, which equalled 1s. 1d. per member and represented a sum equal to 2 per cent. of its trading surplus.

The term education is used in this chapter in the sense in which it is employed in the movement. It appears from an enquiry made in 1922 that the term is employed with an unusually wide meaning. An

[1] For details of the expenditure of retail societies, see Fig. 29.

FIG. 29

EXPENDITURE ON EDUCATION BY RETAIL SOCIETIES

1935

Section	Total Number of Societies	Societies Spending on Education		Members in Section	Members of Societies Spending on Education		Expenditure on Education	Average Expenditure per Member	
		Number	Per cent.		Number	Per cent.		All Societies	Societies making Grants
							£	d.	d.
MIDLAND	137	69	50·4	1,102,058	1,047,710	95·1	39,830	8·7	9·1
NORTHERN	110	44	40·0	600,521	440,873	73·4	8,476	3·4	4·6
NORTH-EASTERN	154	61	39·6	952,703	829,249	87·0	23,976	6·0	6·9
NORTH-WESTERN	208	112	53·8	1,463,750	1,364,643	93·2	55,891	9·2	9·8
SCOTTISH	224	134	59·8	836,200	725,488	86·8	31,743	9·1	10·5
SOUTHERN	114	92	80·7	1,898,155	1,872,379	98·6	74,243	9·4	9·5
SOUTH-WESTERN	81	42	51·8	343,950	301,361	87·6	11,685	8·1	9·3
WESTERN	68	31	45·6	225,342	147,273	65·3	3,997	4·2	6·5
TOTAL	1,096	585	53·38	7,422,679	6,728,976	90·6	249,841	8·1	8·9

examination of the accounts of fifty societies in that year showed that their expenditure on education was allocated as follows:[1]

	Per cent.
Social activities and entertainments	26
Hire of rooms	24
Propaganda	20
Literature	10
Administration, salaries, and expenses	11
Formal education	9

While these figures relate to 1922, there is reason to suppose that they represent the position to-day with fair accuracy. If there have been changes, it is probable that the expenditure on administration has increased relatively and that the expenditure on hire of rooms has relatively decreased. It seems unlikely that the proportion spent on formal education has changed.

It should be mentioned at once that the small proportion of the total expenditure applied to formal education does not by any means fairly measure the work done by the societies in this connection; for, as will be explained later, they also attempt to persuade their members to take advantage of the opportunities for formal education provided out of public funds. In so far as they are successful in doing so, the only expenditure which they incur is in connection with administration. Nor should it be supposed that there is anything improper in so relatively large an expenditure upon entertainment and propaganda. There is clearly need for much propaganda, and there is a very good case for spending part of the surplus collectively upon entertainment, as well as upon formal education, instead of paying it all out in cash to individuals in dividends. The only thing that may be questioned is whether such activities are appropriately described as educational.

It may assist towards an understanding of the activities of the education committees of the retail societies if we give a typical programme issued by the education committee of a large society. A programme issued by the Leeds Society, for example, contains the following items: 14 concerts; 3 important educational lectures, 2 of them organized by Guilds; 2 cinema shows of a propagandist character; 4 amateur operatic and dramatic productions; 4 one-day schools, held on Saturdays, the subjects usually dealing with some aspect of co-operation; 20 lectures organized by the Education Fellowship;

[1] H. J. Twigg, *The Organization and Extent of Co-operative Education*.

24 meetings of the Naturalists' Club; 3 educational courses for employees, each covering a number of weekly lectures, the three subjects being Grocery Management and Salesmanship, Window Display, and Book-keeping and Commercial Arithmetic; 21 courses of lectures on co-operation for juveniles between the ages of ten and sixteen, all the courses being similar in scope but held in different parts of the area; 2 dances; 2 excursions, one to Ulster and the other to Margate; a children's treat; a full list of the lectures for and meetings of the local branches of the Men's, Women's and "Mixed" Guilds and the Comrades' Circle; and notices of the 2 choirs and 2 orchestras organized by the committee, and the Chess Club and Billiards Section. In varying degrees, according to the extent of the membership of their societies, all education committees present somewhat similar programmes.

The items in this programme which fall under the head of education and propaganda need little explanation. The Fellowship's lectures cover a wide range of subjects and include "A Visit to Czechoslovakia" and "What do we mean by Wealth?" Of the twenty lectures in the syllabus, only three are specifically about Co-operation, though mention is certain to be made of Co-operation at most of the meetings. The Comrades' Circle is an organization for those between fourteen and eighteen which attempts to provide, in a manner adapted to the age of the members, the same sort of interests as are provided for adults by the Guilds. Since the Circle's branches need adult guidance and financial assistance, they are usually supervised by the education committees. The Comrades' Circle and other co-operative youth organizations are federated in the British Federation of Co-operative Youth. These youth organizations are increasing in membership, and their activities are growing.

The social activities carried on under the auspices of education committees are very valuable. The opportunities which members have to participate in such activities are limited, and when education committees organize concerts, excursions, dances, chess clubs, pigeon flying and amateur photography, they are rendering a distinct service. The only criticism which might be made is that the programmes follow somewhat conventional lines, and that a bolder policy, aiming at more novel forms of communal expenditure, such as holiday homes, for instance, even if it involved considerably greater outlay, might be justified.

It is difficult to distinguish entertainment from propaganda; for the opportunities which the members possess of participating in these social activities are in a sense propaganda for the movement. Moreover, at most of the entertainments, there is some mention of Co-operation. At concerts there is usually an address by an official of the society during the interval, and at a cinema show a film may be given which is provided by the C.W.S. to illustrate some of its operations. Even at dances, the "co-operative message" is expressed in one form or another. Some education committees also undertake the sale and distribution of literature, and their funds may have to cover the contribution of the society to the *Wheatsheaf*, for which, in each society, one member of the committee usually acts as local editor.[1]

Thus the scope of the work undertaken by education committees is very wide, and many societies have appointed a full-time secretary for their education committee. Where such an official exists, formal education usually receives greater attention than when no appointment of this kind has been made. It is in relation to formal education that the national educational bodies come in. For, even where there is a secretary, guidance from the national bodies is necessary in order to ensure that proper attention is paid to this side of the work.

Just as it is difficult to disentangle propaganda from entertainment, so it is not easy to draw a clear line between entertainment and education. Many of the lectures in the Leeds programme are evidently instructive as well as entertaining. But it is when a series of classes is organized that we may perhaps regard the work as coming under the head of formal education. In order to obtain further information about the educational activities of the retail societies, a questionnaire was circulated to which ten sets of answers have been received. These ten societies are all large, and, since large societies undertake proportionately more educational activities than small societies, the replies cannot be taken as representative of the movement as a whole. All these societies distinguish between propaganda and education properly speaking, and arrange for courses in general education to which non-members are admitted. The subjects cover much the same range as those covered by any large W.E.A. branch. Two societies, in fact, arrange all their general courses through the W.E.A., and most of the courses seem to be arranged, if not in conjunction with the W.E.A., through some other organization, such as the N.C.L.C., or through

[1] See Chapter 14, p. 230.

the L.E.A. Thus many of the classes are grant earning and duly qualified teachers are employed. It therefore follows that, in addition to the courses run by the local committees in social subjects on the lines of the Co-operative Union syllabus, there is a considerable amount of general education of a familiar kind. Apart from these regular courses, each of the ten societies runs single lectures on social subjects at which the attendance is sometimes large, reaching a total of 700 at times. One society reports an aggregate attendance of 25,000 at lectures on social subjects, which is equal to 50 per cent. of the membership. But no doubt most of the attendances were at single lectures.

Nine of the ten societies arrange classes for members in co-operative subjects. The content of these courses will be described below. In all the cases the Co-operative Union syllabus is used and the teachers have the Co-operative Union certificate. The attendance seems to be poor. Not one of the societies has arranged a course designed to give members a knowledge of their duties and opportunities as consumers in an organization which they control themselves. In answer to the question whether such a course would appeal to the members, the answer was in each case in the negative. It seems doubtful whether the possibilities were fully understood.[1] It should be mentioned that, in addition to these courses for members, each society arranges single lectures, open to non-members, on various subjects, which are free; they are well attended. One question asked for views as to the possibility of arousing further interest among members in the work of the society through educational means. The answers were non-committal and vague, but it is correct to say that opinion was generally adverse.

Each of the ten societies arranges courses in technical education for its employees. In every case the Co-operative Union syllabus is used. There are also a few classes on technical subjects arranged in conjunction with the L.E.A. The standard in the former classes seems to be very little different from that of the latter. The attendances vary from 5 to 25 per cent. of the employees, but the average is much nearer the former than the latter figure. In three cases promotion is offered to successful students; in four cases success is taken into account when promotions are made; while in three cases no incentives are offered.

Each of the societies arranges classes of about twenty weeks'

[1] See Chapter 28, p. 506.

duration for young people. Children of members attend without charge. The Co-operative Union syllabus is used, and examinations are held. One society arranges no less than ninety-five such classes. Attendances are very satisfactory, and this is in part due to the influence of the youth organizations, such as the Comrades' Circle for the children and the British Federation of Co-operative Youth for adolescents.

The movement has for a long time been engaged in organizing classes both in technical and in general subjects, the former under the guidance of the Joint Committee on Technical Education and the latter under the guidance of the National Educational Council. Of late years there has been a change in policy, and retail societies are now urged to use the educational facilities provided by local authorities so far as they are available. In their report for 1935, the Joint Committee for Technical Education say that they are "of opinion that societies should extend the use which is made of facilities provided by local education authorities whilst making due provision for the use of the Joint Committee's syllabuses, textbooks and examinations, and for the appointment of a suitable teacher. The new policy adopted by the Committee is, therefore, to act mainly as an advisory body and not as a teaching body, though it will continue its provisions for employees' schools, for correspondence students, and for conducting written and practical examinations."[1] The following passage occurs in the report of the National Educational Council for the same year.

"Many societies now organize classes through the local education authorities, but more might do so. Societies are urged to claim their rights as ratepayers and to enter into agreements with their authorities for co-operative classes to be held under the auspices of these authorities. It will be found that most education authorities (if the societies will undertake to find the students) will be only too willing to arrange classes for them. The Educational Executive, however, emphasizes the importance of Societies, where co-operators form the majority of students in any class, protecting the interests of the students by asking for consultation regarding the teacher to be appointed, and insisting upon the Co-operative Union's syllabuses, textbooks, and examinations being used."[2]

The function of the national bodies is therefore to issue syllabuses, to publish literature and to conduct examinations; they also conduct

[1] Sixty-seventh Annual Co-operative Congress, 1935, p. 92. [2] Ibid., p. 78.

correspondence courses for students who, for one reason or another, cannot join a class. When the local authorities are unwilling to provide teachers and classrooms, the local societies must do it for themselves; but in these cases, though there is always a syllabus provided by one of the national bodies to work on, and in the case of technical subjects a teacher may sometimes be available from the Co-operative College, there is no authority outside the movement in a position to inspect and to maintain standards. The attitude of the local authorities varies. In Scotland they are so willing to provide facilities that the movement is hardly ever obliged to undertake to find teachers and classrooms. The fact that only a very small part of the programme of the Leeds Society is devoted to formal education is due to the willingness of the local authority in that city to co-operate. But there are areas in England where this willingness does not exist.

On the side of technical education a general course for juniors has been devised; it covers arithmetic, book-keeping, and commercial geography. It can be followed by one of four different courses, each related to one of the four main kinds of employment. For those working in shops there is an apprentices' course in salesmanship, followed by a senior course in the same subject, and then, to fit the probable future line of promotion, branch managers', departmental managers', and general managers' courses in that order. These courses occupy five years, so that, if a boy starts the apprentices' course at the age of eighteen, he may be able to qualify, at least by educational awards, for a general manager's post when he is twenty-four, at which age he will probably still be a counter-hand. The first four courses are arranged on a departmental basis covering grocery, butchery, dairy work, drapery, footwear, furniture, and clothing, the student taking the subjects for the department in which he is employed. The other alternatives are the book-keepers' and cashiers' course, the secretaries' course, and the auditors' course, covering three, four and two years respectively.

These technical courses are well thought out and fulfil their purpose adequately. The same is not equally true of the courses on Co-operation and other non-technical subjects designed by the National Educational Council. The subject "Co-operation" is taught in three main stages, junior, adolescent and adult. The last two stages can be taken by correspondence, and are followed by examinations. The first can only be taken in classes; the subject is taught in this stage by some member

of a local society who receives a small fee, and there is no examination. It is no doubt a good idea to attempt to interest children between ten and sixteen in Co-operation, but the syllabus looks dry and the text-books are dull; it is hard to suppose that the subject thus taught can make much appeal even to children of ardent co-operators. The adolescent course bridges the gap between the junior and the senior courses. The latter covers four yearly courses, first a survey of co-operative enterprise, next a more advanced survey, followed by the constitution of the movement and co-operative methods, and finally a more advanced study of the problems arising in the third division. The senior grade is a compulsory subject for the technical courses. There are also some advanced courses in specific subjects, such as co-operative finance and international Co-operation. The layout of the adolescent and senior courses is not unsatisfactory, though too much attention is given to problems of the past, such as the relation between producers' and consumers' societies, and insufficient attention to modern problems, such as the state marketing schemes. But the treatment is unimaginative, and for the adequate discussion of more specialist problems there is a lack of the necessary material in book form.

The National Educational Council also provides syllabuses on social subjects such as history, citizenship and economics. The programme extends to advanced treatments of these subjects. Citizenship includes central and local government, political theory, ethics and the principles of education; economics includes general economics, the theory of money, public finance and international trade. As mentioned above, it is now the policy of the Council to urge the societies to induce local authorities or educational bodies to provide teaching in these and other subjects for such groups of co-operators as may want them. But the Council still offers to provide courses, both by correspondence and otherwise, and to examine and grant certificates in these subjects. It may be questioned whether it has the resources to enable it to do so in a satisfactory manner.

What are its resources? It was explained in the last chapter that the Council controls the Co-operative College. The college dates from 1919; its lecture rooms and library are in Holyoake House, Manchester, the headquarters of the Co-operative Union and of the National Educational Council; it also possesses a hostel in the outskirts of Manchester. The main purpose of the college is to teach residential

students, who are mainly co-operative employees sent there with bursaries, mostly by retail societies. But in addition to these duties, the teaching staff of the college, which consists of five teachers of social subjects, only one of whom has had a full university training, and fourteen of technical subjects, has to prepare all the syllabuses mentioned, to conduct a very large volume of teaching by correspondence, to undertake examinations and, in the case of teachers of technical subjects, to do a certain amount of peripatetic lecturing. The amount of work is overwhelming in size and in scope, and any criticism which may justly be made of the college falls, not upon its devoted staff, but upon those who equip it inadequately.

We found reason to suppose that the teaching of technical subjects is not unsatisfactory. This is so because both teachers and students are in close practical contact with the subjects studied, and the movement provides a wealth of business experience upon which they can draw. There is an awareness of the work of the various trade associations in the sphere of technical education, and this is a healthy stimulus tending towards a maintenence of good standards. The teaching of co-operative and other social subjects is a far more difficult task. There are no signs that this fact is recognized in the movement. Moreover, since there is no easy way of comparing the standard of co-operative teaching in these subjects with that reached in academic institutions of reputation, it does not become apparent when the standard falls below that which is desirable and obtainable. In fact, the social subjects are taught much as technical subjects are taught; they are given out in packets to be swallowed and subsequently regurgitated on examination day. The teaching is deficient in imagination, historical sense, insight and in the application of fine analytical methods.

This weakness in the teaching of social subjects diminishes the value of the college for the resident students, all of whom are taking a general as well as a technical course. There are usually from 30 to 35 students in residence each year; in 1935–36 there were 35 students, 14 for a full academic year, 11 for two terms, and 3 for one term, together with 7 foreign students studying British Co-operation who were there for a full year. The curriculum follows the syllabuses of the National Educational Council, and the students sit for examination. It is a remarkable fact that though the college is so close to the University of Manchester, no regular use is made of the facilities

provided by the University for the study of economics and other social subjects. It is all the more remarkable in view of the fact that it is now the policy of the movement to make use of educational facilities which are publicly provided.

This policy is correct, and it is much to be hoped that, not only will the retail societies carry it out far more thoroughly than they do at present, but also that the National Educational Council, which has enunciated the policy, will put it into effect in regard to the work of the Co-operative College which it controls. Only if this is done will the task of the movement in relation to formal education become clear. If full advantage was taken of the public facilities for general and technical education, it would become evident what could not be provided in this way. It would then fall to the movement to fill the gaps. In regard to technical education, for example, most of what is wanted is common to the employees in other forms of industry and should be available from public sources. But there may be certain technical subjects, such as co-operative book-keeping, which public authorities may not find it proper to provide, in which case the movement must do the work. In the field of non-technical education the position is that citizenship, economics and history ought to be learnt under arrangements made by Universities, local authorities or other recognized bodies. But the movement requires more than this. It has a belief in Co-operation and a special point of view about social problems; it may be said to have certain tenets. Its position is not unlike that of the religious organizations. The latter often maintain colleges in university cities; the students avail themselves of the facilities offered by the universities for non-sectarian instruction, but attend special lectures in the college on sectarian subjects. This should be the relation of the Co-operative College to the University of Manchester. The teaching outside the college in what we may call sectarian subjects must be arranged by the societies in special classes with the assistance of the National Educational Council; the teachers might well be drawn from among the students of the college, just as, in the case of religious organization, the ministers are drawn from the theological colleges.

The organization of classes and the selection of teachers for these specifically co-operative courses is, however, not all that is wanted. Relatively few people will join classes and follow courses. Many, however, are willing to attend conferences and week-end or summer

schools. Some excellent work of this kind is already undertaken. The National Educational Council organizes four residential summer schools at holiday resorts for members of local societies, and also a school for teachers of social subjects. The regional and district educational associations hold conferences and organize week-end schools. These occasions give most valuable opportunities for the exposition and discussion of co-operative aims and the co-operative point of view. They provide the best way of giving information and of interesting members in these matters who have neither time nor inclination to join classes. Though an admirable beginning has been made with the use of such methods, they might well be far more frequently employed.

Finally the movement must undertake its own research work. The subjects, whether technical or not, the teaching of which it retains in its own hands, cannot be satisfactorily handled unless there is continuous investigation. Such subjects are the relation of co-operative economic organization to the national economic organization, and the relation of co-operative social structure to the national social structure, and they fall within the fields of applied economics and applied sociology; and it must be remembered that co-operative organization and the world within which it functions do not remain static. Therefore, not only must these problems be investigated by the movement itself, since, owing to their reference being very specific, they fall as much outside the scope of ordinary academic research work as the specific problems of a church fall outside the scope of the academic theologian, but also investigation must be continuous. The movement must build up the necessary machinery for research. Up to the present it has not begun to do so.[1] The Co-operative College, as we have seen, is very inadequately staffed, even to undertake the teaching work which already falls upon it; for research work it is in no way equipped.

[1] This does not, of course, refer to "business" research, such as might be properly undertaken by a Research Department of the C.W.S., or technical research similarly undertaken by the appropriate C.W.S. organization.

CHAPTER 14

PUBLICATIONS

THE educational work of the co-operative movement, as we have seen, is to a large extent propagandist in that it gives publicity to co-operative aims and ideals, and is used to explain the movement's activities to the public. For this propagandist purpose the classes, lectures and meetings, described in the previous chapter, are not enough; the spoken word needs to be supplemented by the written word. In fact, the numerous books, journals and pamphlets published by the movement reach a wider public and probably have a greater influence than all the lectures and speeches. More than a million persons regularly receive co-operative publications, while the numbers attending classes and meetings are, as we have seen, much smaller. The publications of the movement are, therefore, of considerable importance. In the early days of the movement one weekly journal was sufficient for all purposes; to-day there are many co-operative publications, so many indeed that they confuse the average member.[1] The confusion arises from the complexity of the movement. The trading societies, guilds, education committees, political councils, officials' associations, employees' trade unions, all rely on the publication of journals and pamphlets to explain their aims and opinions, to provide means for the discussion of their problems and to give information to their members.

There are three main organizations concerned with publishing: the Co-operative Press Ltd., the Co-operative Union, and the Co-operative Wholesale Society. The Co-operative Press is a national federal society with 770 shareholding societies.[2] Its function is to publish newspapers and journals for the movement as a whole. It is not, in theory at least, concerned with the claims and views of any one section alone. Being free from sectional control, it is in a position to select and present news and judge all issues without sectional bias. The Co-operative Press has three offices. The main office, at Manchester, issues the *Co-operative News*, *Woman's Outlook*, and two

[1] A short history of British co-operative publications appeared in the *Review of International Co-operation*, April and May issues, 1936.

[2] The Co-operative Press Ltd. is a national federal society: see Chapter 9.

youth magazines. The London office publishes *Reynolds News* and the *Millgate Monthly*. The *Scottish Co-operator* is published from the Glasgow office. The *Co-operative News* and *Scottish Co-operator* are weekly journals designed to give news about the movement's activities generally. They serve a useful purpose, but neither reaches a high standard in the selection and presentation of news, or in discussion and criticism of co-operative policy, developments and problems. The *Scottish Co-operator* is more enterprising than its English counterpart in its comments on co-operative affairs. Both are potentially capable of exercising a great influence on the policy of every section of the movement, for every committee member or official and every active member of a local society has to read either one or the other, in order to know what the various sections of the movement are doing. They are essential to the active minority who control co-operative enterprise. Yet no critical analysis of trading policy and methods of operation will be found in their pages. Neither do they devote space to the discussion of policy for expansion. Both try to be newspapers serving the co-operative democracy, believing it to be their purpose to give news spiced with generalities on the evils of capitalism, the iniquities of Conservative politicians and the virtues of co-operative enterprise. General propaganda of this kind is in many ways necessary and desirable if the journals are circulated among the unconverted. But the *Co-operative News* and the *Scottish Co-operator* are read only by the converted, and then only for the news they give. Their circulations, 70,000 and 21,000 respectively, indicate their limited influence as general propaganda sheets. The effective circulations are even smaller, for a large number of copies are bought by societies out of a sense of duty and little effort is made to distribute them to their members.

The most effective propaganda journal in the movement is *Reynolds News*, an old radical Sunday newspaper established in 1850 and bought by the Co-operative Press in 1929. It has a tradition of fighting for democratic principles and for social and political reforms. Co-operative societies subscribed the £150,000 which the Co-operative Press paid for the printing plant and goodwill of *Reynolds*. The decision to make the purchase was acclaimed with unusual enthusiasm by the 1928 Co-operative Congress.

For years the movement had talked of owning its own newspaper with a mass circulation; but the newspaper acclaimed by the delegates to Congress did not come up to their expectations. It had a very

unattractive appearance. The machines on which it was printed were obsolete. Circulation was small compared with other popular Sunday newspapers, and it fell to lower levels under co-operative ownership. The Co-operative Press, however, was determined to make a success of the venture, and appealed successfully to societies to give further financial help for the purchase of new machinery and equipment. With this assistance a new *Reynolds* was launched in 1935. In its new form it compares favourably with any other popular Sunday newspaper. Under the capable direction of its editor, it has gained a unique place in British journalism. It has a group of regular contributors who are well known and competent writers, and they, with an enterprising editorial policy, have combined to produce a left wing newspaper which a section of the public wanted. It devotes considerable space to political matters and is socialist in outlook. Whether a definitely political newspaper of this kind is the best medium for co-operative journalism is questionable. But *Reynolds News* is proving to be successful. It has a circulation of half a million which is steadily growing. *Reynolds News* rather than the *Co-operative News* is now the more appropriate journal to be used as the general propaganda newspaper of the movement.

The *Woman's Outlook* is a small journal modelled on the lines of some popular papers for housewives. The style and layout are, however, inferior to other papers of the same kind. On the other hand, in addition to articles on housekeeping and fashion, it publishes articles on political and social questions not found in the other papers, and it avoids society gossip and tittle-tattle about film stars. Its aim is to provide the members of the Women's Guild with their own housewives' journal, and articles on co-operative matters appear regularly. The *Woman's Outlook* is published at 1½d., but even at this nominal price its circulation of 32,000 copies weekly is less than half the 70,000 membership of the Women's Guild. The *Millgate Monthly* attempts to be a popular monthly magazine; in its own words it stands for "Culture and Social Progress", but what it means by culture is not clear. Many of the articles published in its pages are of general interest and are usually concerned with social or political subjects. Some co-operative propaganda appears regularly and there is at least one short story in each issue. It tries to be at one and the same time a co-operative publication combining informative articles with propaganda, a political journal discussing the science and problems of

government and the characters of politicians, a sociological journal dealing with social problems and statistics, and a popular magazine containing short stories, book reviews, articles, and notes about people and events. No single journal can combine all those aims successfully. One of the two youth magazines published by the Co-operative Press is issued for the British Federation of Co-operative Youth, and the other for the Comrades' Circle.[1]

A recently inaugurated service of the Co-operative Press is the publication of local monthly news-sheets for the Co-operative Party. These bear the name of the *Citizen*, usually preceded by the name of the town in which the news-sheet is issued. The contents are mainly political propaganda. The *Citizen* series have a total circulation of more than 700,000 copies a month, and are distributed to the general public in those areas where the Co-operative Party is strong. Many persons thus obtain their introduction to the co-operative movement through a political broadsheet, and in some districts the *Citizen* is the only form of co-operative advertising. This extensive publicity for one aspect of the movement gives to local co-operative enterprise a political atmosphere of a kind which in fact it does not possess.

The Publications Department of the Co-operative Union publishes most of the books and pamphlets issued by the movement, including the textbooks used in educational classes. It also publishes the *Co-operative Congress Report*, the *Annual Review of Co-operative Statistics*, the *Co-operative Directory*, and several periodicals, of which the *Co-operative Review* is the most important; it is a monthly magazine which serves as the official organ of the Co-operative Union, and is indispensable to management committees and officials. The *Co-operative Educator* and the *Co-operative Official* are two other periodicals issued from this source. The former is a quarterly journal and, as its name implies, is the organ of the Education Department. The latter, although published by the Co-operative Union, is not controlled by the Union. It is the monthly journal of co-operative officials and is controlled by a joint committee of officials and the Union; the latter in a spirit of helpfulness provides publishing and editorial services.

The Co-operative Wholesale Society, through its Publicity Department, publishes three monthly periodicals, one annual and a number of pamphlets. One of the monthly periodicals, the *Wheatsheaf*, is a home magazine with 530 local editions, and is considered to be the

[1] See Chapter 13, p. 218

best advertising medium the movement possesses. It has a total circulation of more than 1,100,000 copies a month. Each local edition consists of sixteen magazine pages, standard for each edition, and a number of pages in which appears news about the affairs of the local retail society, including notices and reports of meetings, new services, special lines on sale in the society's shops, trading results, employees' activities, and local events with which the society is concerned. The number of local pages varies from four to thirty-two, according to the size of the society, and the name of the local society appears on the cover to give the magazine the appearance of being a local publication. Such a service as the *Wheatsheaf* provides is essential to retail societies, for without it only a small proportion of the members, those who attend the business meetings, would know what their society is doing. The method of distributing copies varies. Most societies put copies in their shops for customers to take away. Some also put copies in parcels delivered to customers' homes. A few arrange a house-to-house distribution covering the whole of their areas, and including members and non-members alike. Only two of the 530 societies make a charge for copies. The cost of printing and publishing is jointly borne by the C.W.S. and the local societies. The *Wheatsheaf* is valuable to the C.W.S., for the sixteen magazine pages regularly include articles on C.W.S. products and services. The size and general lay-out of the magazine do not make for the production of an attractive journal; it is too much like a Parish Church Magazine.

The *Producer*, also published by the C.W.S., is the trade journal of the movement. It is issued monthly, and shares with *Reynolds News* the distinction of having reached a high typographical standard in its own field. Most other co-operative journals pay too little attention to typography and form. As a trade journal the *Producer* serves the managers and buyers of co-operative societies, and the articles appearing in its pages discuss all kinds of trade matters with which they are concerned. The other monthly periodical published by the C.W.S. is *Ourselves*, a magazine for the employees.

The C.W.S. annual is the *People's Year Book* which gives an annual survey of the development of co-operative enterprise in Great Britain and many other countries, intermingled with articles on current topics and reviews of the cinema, theatre, literature and science.

This list does not comprise the whole of the literature published

by the movement. Many retail societies issue their own journals, which are comparable with the local editions of the *Wheatsheaf;* and mention should also be made of the *Co-operative Productive Review* and the *Co-operators' Year Book*, the former a monthly magazine and the latter an annual, both published by the Co-operative Productive Federation.[1] The Co-operative Men's Guild issues a monthly magazine to its members, called the *Guildsman.* The Co-operative Insurance Society and the Scottish C.W.S. both publish quarterly house journals Finally, there is the *Review of International Co-operation*, published monthly in three languages by the International Co-operative Alliance, which regularly includes in its pages much valuable information about co-operative enterprise throughout the world.

Fig. 30 gives a general view of the publications of the movement.

From the list of publications given above, it will be seen that the movement is well supplied, even to the point of being overladen, but it is doubtful whether all these journals are adequately fulfilling the tasks they were established to perform. Most of them lack the attributes which go to make a successful periodical. Among the thousands of papers and magazines offered to the public, a large proportion have a distinctive character which each has built up and which is the thing that sells. This character might be created by typographical art, by the regular appearance of a particular kind of article, by a group of well-known writers, by the expression of a distinctive point of view, by intriguing and provocative comments on current affairs, or by any of the journalistic methods with which commercial publishers experiment in order to find out what appeals to the public. Co-operative publications, with few exceptions, lack that distinctive character which would mark them out and lift them from the common rut. One reason for this is the difficulty the movement has experienced in utilizing the usual retail channels of newspaper distribution. Only *Reynolds News* is sold through newsagents. For the rest the movement itself must act as the distributing agency. The circulation of most co-operative journals is, therefore, determined by the loyalty of the members, and not by the quality of the contents. This dependence on loyalty seems to have produced a certain inertia and has stifled enterprise in co-operative journalism. A careful utilization of the resources of retail societies would surely provide alternative methods of distributing co-operative publications to the

[1] See Chapter 10.

FIG. 30

MAIN CO-OPERATIVE PUBLICATIONS SHOWING CLASSIFICATION, PUBLISHERS, AND CIRCULATION

Classification	Title	Publisher	Period of Issue	Period Circulation (Copies)
Informative: Public Circulation	*Co-operative News*	Co-operative Press	Weekly	75,000
	Scottish Co-operator	Co-operative Press	Weekly	21,000
Official Journals of Specific Groups	*Co-operative Official*	Co-operative Union	Monthly	5,500
	Co-operative Educator	Co-operative Union	Quarterly	3,800
	Ourselves	C.W.S.	Monthly	26,000
	Our Circle	Co-operative Press	Monthly	10,000
	Co-operative Productive Review	Co-operative Productive Federation	Monthly	3,500
	Co-operative Guildsman	Men's Guild	Monthly	4,000
	Co-operative Youth	Co-operative Press	Monthly	2,500
Informative: Management Technical and Commercial	*Producer*	C.W.S.	Monthly	19,000
	Co-operative Review	Co-operative Union	Monthly	6,500
Popular: National	*Reynolds News*	Co-operative Press	Weekly	500,000
	Woman's Outlook	Co-operative Press	Weekly	32,000
	Millgate Monthly	Co-operative Press	Monthly	7,500
Popular with Local Editions	*Wheatsheaf*	C.W.S.	Monthly	1,100,000
	Citizen	Co-operative Press	Monthly	700,000
Annuals: Popular	*People's Year Book*	C.W.S.	Annually	13,500
	Co-operators' Year Book	Co-operative Productive Federation	Annually	9,000
	Sunshine Annua	Co-operative Press	Annually	14,500
Annuals: Informative	*Co-operative Congress Report*	Co-operative Union	Annually	9,500

membership the movement now possesses—methods which would provide some test of the attractiveness and usefulness of the publications themselves.

The movement requires at least one popular newspaper circulating to the general public, and *Reynolds News* fills the need. Most of the other journals are published either for local groups of members, or for specific national groups within the movement. The *Wheatsheaf* serves local groups of members, although there is considerable room for improvement in its service. The *Co-operative Review* and the *Producer* combine to serve the interests of management committees and officials, and the *Co-operative News* and the *Scottish Co-operator* are the internal newspapers of the movement. Other groups, such as employees, educationists, guilds and youth associations have their own journals. What is lacking are journals in which co-operative enterprise is critically examined and treated in such a way that suggestions and proposals for improved efficiency and expansion of services emerge. For some years the *Co-operative Review* consisted of critical and informative articles of a high standard; but the style and contents were changed two years ago, when it became in a more definite form the official organ of the Co-operative Union. The Co-operative Union certainly needed an official organ, but it is to be regretted that, in making the change, the only educational journal of the movement was put out of existence.

A significant fact which emerges in this survey of the movement's publications is that the C.W.S. has found it necessary to publish journals which are not specifically "house" organs, although a special publishing society, the Co-operative Press, exists for that purpose. One reason is that the C.W.S. is specially concerned with trade, and whatever organization may publish a trade journal for the movement, it will have to rely to a very large extent on commercial information supplied by the C.W.S., which explains in part its publication of the *Producer*. There is, however, another important reason. The C.W.S. naturally wishes to express its own point of view to the officials of retail societies. A trade journal published by the C.W.S. is bound to serve its interests, whereas a journal published independently might take sides against the C.W.S. in the discussions appearing in its pages. The *Wheatsheaf* is in a similar position. So long as it is published by the C.W.S. it serves the interests of that body; but there is no danger of the popular Co-operative Press taking

an independent line in its publications against the central organizations of the movement. To be critical of any section in any of its popular papers would be foolish, for those papers reach the public and are issued to propagate co-operative enterprise, not to discuss its weaknesses. On the other hand, the journals which only circulate among the active minority of members and officials would be more useful if they were more critical; but they are not likely to change their policy under present conditions, for the simple reason that they depend on advertising revenue, supplied mainly by the C.W.S., for their existence. It is true that an attack on the C.W.S. in the publications of the Co-operative Press Ltd. would not cause a withdrawal of its advertisements. Relations between the various sections of the movement are not conducted in that spirit. On the other hand, the Co-operative Press Ltd. would think twice about offending its chief source of revenue. The seemingly independent position of the Co-operative Press Ltd. has thus been undermined.

An equally serious criticism of co-operative journalism is its inability to reach anything like a high standard, either in typography and form or in the material published. A stranger who reads the numerous journals of the movement will find it hard to believe that they are issued by a powerful trading undertaking seeking to transform the existing commercial system. It must be said that most co-operative journals are unworthy of the movement they represent. They are dull, unattractive, lifeless and frequently unreadable without a great effort. While most features of co-operative enterprise have kept pace with modern business developments, co-operative publications have lagged behind the progress which has been made in the publishing world. With few exceptions, their "make-up" is old-fashioned, and the manner in which they discuss co-operative enterprise has changed but little since pre-war days.

Co-operative journalism in publications circulating among the public has an obvious task to perform: it has to present to the world the purpose and the results of co-operative enterprise, and the shortcomings of capitalism, in an interesting and appealing way. As this book shows, Co-operation is a subject wide enough to provide a nearly unlimited scope for enterprising journalism, and the central theme of this wide subject—service for the consumer—is of such interest and importance to every family in the community as to make the publication of journals dealing with housekeeping in its widest

aspects an indispensable co-operative service. This field is all but neglected by the co-operative movement, yet it offers the greatest scope for giving to the public as consumers the most valuable service which the movement could provide, including regular information about commodities and their uses and what they are made of, about prices, supplies, and all the other facts which enter into the supplying of consumers' goods. The co-operative movement should also have a point of view about every aspect of social life, and this might be developed and propagated by means of effective publications, which would have the further effect of consolidating the movement as a whole. Journalism of this kind would not only be of great assistance to consumers, it would also be the best form of publicity for co-operative enterprise.

Co-operative journalism serving specific sections of the movement is less open to criticism. It has a more limited field which offers less scope for enterprise and demands less. In this field the absence of healthy criticism is the only serious defect, a defect which can only be remedied by a free and independent but influential publication. The very structure of the movement prevents such a journal coming into existence, unless either one of the national organizations were willing to pay for the cost while refraining from calling the tune, or the journal in question could be of such outstanding merit and interest as to be able to stand on its own feet.

Chapter 15

THE GUILDS

§ 1. *Organization of the Three Guilds*

The Guilds are voluntary bodies, democratically controlled, and constituted for self-education, discussion and the formation of opinion. There are three national organizations within the Guild movement: the Women's Co-operative Guild, the National Co-operative Men's Guild, and the National Guild of Co-operators. This latter is opposed to the sex barriers which limit the membership of the two other organizations. The Guilds have played and still continue to play a very important part in training potential members of management committees and other co-operative and public bodies, in the formation of opinion on co-operative affairs, and in general social education.

The Women's Guild was founded in 1883 at a meeting held during the Co-operative Congress at Edinburgh. The movement spread with great rapidity, for in many ways the time was opportune, and the factors making for this development were not peculiar to the co-operative movement. At this time the "women's movement" was beginning and women of all classes were aspiring to take a new part in the life and thought of society, but the working-class housewife, burdened by domestic duties, was far more remote from social life and thought than the unmarried woman or the married woman with domestic servants, and it seemed that the tide of women's education might not penetrate to her and the large section of the community she represented. But the co-operative stores, dealing in household goods, formed a natural rallying centre for a "housewife's movement", and the aspirations of the working-class housewife found their outlet in the Women's Guild.

The aims of the "Women's League for the Spread of Co-operation", as it was originally called, were set out in 1883 in the following terms: "(1) To spread a knowledge of the advantages of Co-operation; (2) to stimulate amongst those who know its advantages a greater interest in the principles of Co-operation; (3) to keep alive in ourselves, our neighbours, and especially in the rising generation, a more earnest appreciation of the value of Co-operation to ourselves, to our children,

and to the nation; (4) to improve the conditions of women all over the country."

The early history of the Women's Guild was like that of other movements which meet the needs of an age. Meetings were held in various centres, where two or three individuals would come forward to form the nucleus of a new branch. By 1893 there were 6,000 members and 137 branches, and in 1935 the Guild numbered 70,000 members and had 1,671 branches. The movement, from the first, took the form of a federation of autonomous branches. Considerable initial guidance was given by certain middle-class leaders, among whom mention must be made of Miss Llewelyn Davies, who was General Secretary from 1889 to 1921; but the movement rapidly threw up its own leaders from among the rank and file members. An important battle was fought on the matter of platform speaking for women. In the early days this was a rare innovation, and there were some in the Guild who were opposed to it. The democratic basis of the Guild organization naturally led to its acceptance.

Education, in a wide sense, has been one of the central activities of the Guild movement. It is usual for each branch to have weekly meetings, at which either a member or an outside speaker gives a paper followed by discussion. These meetings are remarkable for the business-like manner in which they are conducted. The subjects for discussion cover an ambitious range; in addition to matters connected with Co-operation, they also include economics, political science, and hygiene. Papers are often given by the secretary or one of the departmental managers of the local society on matters connected with trade. In addition to group meetings, short conferences and one-day or week-end schools have been increasingly common of recent years, bringing together members from several branches.

The Guilds are dealing with a special constituency, requiring educational methods differing from those natural to the "academic" type of mind. The working-class married woman, not normally a student by nature, is not interested in abstract study. What she needs is something concrete, linking directly on to her immediate experience, and equipping her to deal more wisely with the actual situations of her life. The Guild movement has always reflected closely the mental outlook of the membership.

The Women's Guild has never been a purely educational movement. It has developed a positive policy on certain issues and has endeavoured

to put its policy into effect by a series of "campaigns". In some instances, the Guild has organized opinion within the co-operative movement with a view to securing some domestic reform; in other instances it has taken up national issues and has served as the mouthpiece of the working-class married woman. It has fought for a minimum wage for women co-operative employees; against credit in the co-operative movement; against high dividend policy; to extend Co-operation to the poorer classes; for the six-day week for milkmen in co-operative employment; for woman suffrage; for divorce law reform; and for national care of maternity.

The Women's Guild represents the strongest organized body of opinion among co-operative membership and has had a real influence on the policy of societies. Its influence outside the co-operative movement is harder to assess but has undoubtedly been considerable when a concerted effort has been made. Of recent years there seems to have been a danger of the movement losing itself in an orgy of mere "resolution passing", especially at its annual congress, and less attention has been paid to the careful organizing of a limited number of campaigns.

As a result of the success of the Women's Guild, the need for a similar organization on the men's side was explored, and in 1911 the National Co-operative Men's Guild was founded, its first activity being a conference in December of that year. Early development was hindered by the War and, even afterwards, progress was fairly slow. Since 1924, the movement has definitely progressed, and the appointment of a full-time organizing secretary in 1930 has given to it a new impetus. There were, in 1934, 10,000[1] subscribing members organized in 330 branches, which were distributed among 250 societies. Men's Guilds are not normally found in societies of less than 1,000 members. The Birmingham and Royal Arsenal Co-operative Societies have twenty branches each, but it is exceptional to find more than three or four branches attached to one society. There is a central office with a full-time secretary, which produces a series of pamphlets and a periodical, the *Guildsman*. The Guild also administers a Group Life Assurance Scheme.

The activities of the Men's Guild follow much the same general lines as those of the Women's Guild, but "campaigns" have been less

[1] Many branches admit unemployed members without payment, so the total actual membership is probably much larger.

in evidence. The chief activity of a branch is the weekly meeting, with discussion on a variety of subjects, including such general topics as problems of democracy, talks on the local society and discussions of its affairs, local government activities, and so on.

The Men's Guild is much smaller than the Women's Guild and has rather less spontaneous vigour about it. For the Women's Guild does not depend for its drive solely on its co-operative ideals; it also occupies a unique position as a housewife's organization, and depends for its life on the confluence of these two interests. The Men's Guild is more purely co-operative in its interests. Its distinctive feature lies in the opportunity it gives for exchange of thought and opinion between members and officials of societies. It has a fairly high proportion of employees in its membership, and probably a quarter of the branches are officered by co-operative officials. In so far as it helps to hold together the trading and idealistic sides of the movement, this is excellent. In many of the larger societies active participation in Guild life is the sole stepping-stone to influence within the local co-operative democracy.

The sex separation involved in the Guilds' constitutions was soon called in question, and the feeling against it led to the formation of the National Guild of Co-operators in 1926. This Guild has developed with reasonable rapidity, and in 1935 there were ninety-two branches with a membership of 5,882. The objects are "to provide a meeting ground for all men and women interested in the working and development of the co-operative movement, irrespective of class or sex." As far as can be seen, the membership is largely new to the Guild movement as a whole and not drawn from the other Guilds. The "mixed Guild", as it is usually called in co-operative circles, appeals to married people, who appreciate the opportunity of an organization in which they can take part together.

The three Guilds are quite separate, but follow very similar lines of organization. In the case of the Women's Guild and the Men's Guild, the organizations in England and Scotland are constitutionally distinct, but they work in close co-operation. The units of each organization are the local branches. Each branch is autonomous and is associated with a particular retail society; therefore, in areas where societies overlap, it is not necessarily an organization of all co-operators living in a district. Model rules drawn up centrally are usually adopted. Each Guild holds an annual conference which exercises certain constitu-

tional powers, but effective control is in the hands of a central committee or council. In addition, each Guild has a series of regional committees. The Women's Guild, being the largest and oldest, has developed the most complete local structure; it has eight sectional councils, administering areas corresponding roughly to the sections of the Co-operative Union, and district committees which supervise the smaller districts. The Men's Guild and the National Guild of Co-operators have a similar structure, but less developed. The local committees are responsible for supervising certain aspects of the local work of the Guilds in their areas, making representation to local societies, and holding periodic delegate conferences.

The national and local committees of the Guilds are elected by the branches, each branch voting as a unit but having a voting strength proportional to its membership. This rather complex organization of local committees and conferences serves to keep the central committee and secretary in direct touch with the rank and file membership. It also helps to develop local leadership. About one-third of the income of the Guilds comes from subscriptions from the C.W.S. and the Co-operative Union, and the local societies often give small grants to the branches in their areas. The rest comes from the subscriptions of members.

At the present time various attempts are being made to co-ordinate the Guilds. In some retail societies, which have branches of all the Guilds associated with them, there has been set up a "Guild Council" to promote a local exchange of opinion between the Guilds and to form machinery by which the Guilds may work together within the society. Except for this there is no formal collaboration between the Guilds, although there is informal consultation as a result of which the Men's and Women's Guild usually agree on important co-operative matters.

It is sometimes suggested that the time is now ripe for a merging of the three Guilds, following the line of argument which led to the setting up of the National Guild of Co-operators. In so far as the Guilds exist for discussion and the formation of opinion within the co-operative movement, there are strong arguments for this. The Women's Guild has, however, another function—that of being an organization of working-class women—and it is plain that most members desire to preserve the distinctive nature of the Women's Guild. The Men's Guild, on the other hand, appears to represent

only to a small extent any distinctively men's viewpoint on co-operative and general affairs.

§ 2. *Relations with the Co-operative Movement*

It does not need a very prolonged contact with co-operative retail societies to be conscious of the influence of the Guilds, especially of the Women's Guild. Among the 2 or 3 per cent. of the total membership who normally attend quarterly meetings, a very large section belongs to the Guilds. In many societies, the attendance at quarterly meetings consists almost entirely of Guild members and employees. More than that, the Guilds provide almost the only centre for the initiation of new ideas outside the management; they represent the only sections of the membership, in addition to the employees, which are organized and in a position to present opinion in a definite and formulated manner. The attitude of management committees and officials to the Guilds varies. Sometimes they are welcomed, as a propagandist movement and a subsidiary form of advertising. More frequently, however, they are viewed critically as an opposition party who are always "agin the government". As an opposition party, the Guilds may exert a very healthy influence; there is some danger, however, of their getting out of touch with the trading side of the movement and urging on the management committees purely idealistic lines of policy which would not be in the interests of the membership as a whole. The policy of fairly frequent meetings between managers and the Guilds is of real value to both sides.

The relations between the Guilds and the employees, as represented by the employees' unions, are usually friendly. The Guilds are generally prepared to press for any improvement in working conditions within the movement—often without adequate attention to conditions obtaining outside. They will often do most of the speaking at members' meetings on matters affecting the employees. A division of opinion between the Guilds and the employees is rare and practically never occurs on major matters of policy.

The relation of the Guilds to national party politics is somewhat difficult to define. The Women's Guild, which has the longest history in this matter, was originally non-political and non-sectarian in the ordinary sense of those terms; but, like all bodies concerned with policy, it developed a political colour, in the first place generally

liberal and progressive, though avoiding definite party issues. The rise of the Labour Party, however, provided a more definite rallying point and, while explicit association with Labour was avoided at first, the great weight of the movement lay behind this Party. The present situation is somewhat confused by the existence of the Co-operative Party, but if the opinion of the Guild Congress is any guide, the official policy is to work in alliance with the Labour Party, while being directly represented on the National Committee of the Co-operative Party. The Women's Guild, as a whole, is not affiliated to the National Labour Party, although local branches may be, and in a few cases are, affiliated to the local Party organizations. It is, however, represented on the Joint Committee of Industrial Women's Organizations. This body is an adjunct of the Labour Party, and at the same time an association of women's movements which are not necessarily party political, but consist of members who wish to improve the economic and social status of women. The main function of the committee is to organize the annual Conference of Labour Women. In between the conferences the constituent bodies—the women's sections of local Labour Parties, the Women's Co-operative Guild and women's trade unions—are only loosely co-ordinated by the joint committee; each goes its own way. In many areas, the active woman membership of the Labour Party closely coincides with the membership of the Women's Guild. It is not easy to say, however, whether one acts as a recruiting ground for the other.

The Men's Guild and the National Guild of Co-operators are both affiliated to the Co-operative Party. They are not officially related to the National Labour Party but have a general policy of alliance with Labour. These Guilds tend to collect the politically conscious and—as with other non-party, progressive organizations—branches are sometimes captured by the Communist element. This tendency has been the subject of special recommendations from the National Council of the Guild of Co-operators and has caused the dissolution of certain branches.

§ 3. *Significance of the Modern Guilds*

The Women's Guild, as we have seen, is at once a voluntary organ of co-operative democracy and the most comprehensive existing organization of working-class married women, united on the basis

of their common membership of the co-operative movement; in fact, it is the only "housewife's trade union". On some occasions these two aspects harmonize—e.g. in the opposition to producers' organizations acting against the interests of consumers; at other times they may lead to a clash of policy, as during the campaign for Divorce Law Reform.[1] It is this double function of the Women's Guild which prevents the merging of the Guilds into one Co-operative Mixed Guild. The greatest achievement of the Women's Guild has been to provide an opportunity of combined thought and action for working-class married women which had hitherto been lacking. The working man had had many opportunities of group activity, in trade unions and in the ordinary contacts of his work. His wife was condemned to a life far more lonely and cut off from others with like interests. In catering for the needs of this section, the co-operative movement had two great advantages—its democratic nature and traditions and its direct concern with the concrete problems of the working housewife. In marked contrast to "mothers' meetings" and the like, the Guild branches managed their own concerns and worked out their policy in a truly democratic manner. The Guild drew to itself, for this reason, the more vigorous minds among working-class women, and the co-operative stores, with which they were associated, gave them a new experience of life and a realization of their capabilities. This experience was more vivid to the older members, for the life of the working-class housewife was in the past narrower and more drab than it is to-day. It is doubtful how far the Women's Guild will make the same appeal to the younger generation.

The Men's Guild and the National Guild of Co-operators have had a simpler function to perform, namely to provide means within the co-operative democracy for eliciting opinion and making it effective. Without such activity, the mere constitutional machinery of popular control is lifeless. The Guilds, therefore, have a real function in the co-operative movement; they help to preserve its democratic character by training their members in the practice of democratic control.

[1] An account of the Guild's agitation for the reform of the Divorce Law from 1909 to 1914, in the course of which evidence on behalf of the Guild was given before the Royal Commission on Divorce Law Reforms, appears in *The Woman with the Basket*, by Catherine Webb, on page 152.

PART III

CO-OPERATIVE DEMOCRACY

Chapter 16

DEMOCRATIC CONTROL OF RETAIL SOCIETIES

§ 1. *The Meaning of Democratic Control*

The tension within States whose political organization is, at least in form, democratic, is often attributed to the failure to make their industrial organization equally democratic. If this is true, it means that one of the main problems in these States is the achievement of industrial democracy. The co-operative movement was democratic in origin, and the claim to be democratic is still its most distinctive feature. As important and well-established trading concerns, co-operative societies provide an unequalled opportunity for studying the attempt to apply democratic ideas and organization in the sphere of industrial activity.

Democratic experience has given rise to three fundamental affirmations:[1] (1) That each individual counts and has a life to live; (2) that, in determining what is right for a group, each may contribute; (3) that out of conflicting opinions a decision can be reached by discussion.

Lying behind all these, and taking its most explicit form in the first of them, is a belief about the nature of man. This belief is that no one exists just to be made a tool, and that social institutions and organizations are of value in so far as they help each to live his own life.

This belief calls in question the way in which power is used in society—whether it is political or economic power. Modern conditions both of government and production make it inevitable that power should be concentrated into relatively few hands; they require that organs of control should be capable of definite and efficient action. This power may be used for the ends of those wielding it or for sectional advantage; democratic principles demand that it should be used for the good of all. It seems to be a fact that the possession of unquestioned power by any social group in time destroys its sensitivity to the needs of the larger body. Democratic organization has

[1] See *The Clarke Papers*, collected by the Camden Society, and A. D. Lindsay, *The Essentials of Democracy*, pp. 11–19.

been concerned with devices which render a governing group continually sensitive to the will of a larger group. The vote is one such device, but only one; its importance as a democratic instrument is derivative rather than fundamental. The will and interests of a heterogeneous group cannot be expressed so simply; they can only be elicited by discussion. Therefore the foundations of modern democracy lie in the right of free discussion and criticism, and in the right of free association, upon which freedom of criticism and discussion depends. Without these, democratic forms, such as the vote and the elected governing body, are meaningless and unreal. In short, true democracy depends not merely on forms of organization, but also on the sensitivity of the controlling group to the constantly expressed will of the whole. Democracy emphatically does not mean that everyone must have a finger in the pie.

It is now commonly recognized that power in the modern State is not confined to the organs of government. Industrial capital gives power to those who control it; power over the workers who are employed to operate that capital; power over those who consume the goods and services produced by it; and power over society as a whole. Like the State itself, trading organizations have their forms of government. All industrial and commercial undertakings consist of a body of capital assets, with a number of workers, and an organized management culminating in a "higher control" (for example, a board of directors). There are four groups, standing in different relations to the undertaking, who will be affected differently by the way in which the undertaking is administered and who have distinct, and sometimes conflicting, interests in relation to the undertaking. These groups are (1) the providers of capital, (2) the employees, (3) those who consume the output of the undertaking, and (4) the community as a whole, not considered as shareholders, employees or consumers of the output of the undertaking.

The sensitivity of the management to the desires and interests of these four groups is the result of what may be called economic and institutional constraints. Economic constraint results from the fact of exchange; the undertaking has to bargain with the shareholding group for capital, with the employee group for labour and with the consuming group to sell its output. The need for bargaining creates in the management sensitivity of a certain type; it is common in varying degrees in all types of industrial undertaking; but the degree of

sensitivity thus created depends on the amount of competition existing between different trading undertakings on the one hand, and between members of the various groups on the other. Institutional constraint is that which is exerted by the group which is in ultimate control of the management, the group, that is to say, which can draw up the rules under which the undertaking is organized and which possesses the power to remove the management. The distinction between capitalist undertakings, State enterprises, public utility corporations, worker-controlled undertakings, and consumers' co-operative societies depends to a relatively small extent upon differences in economic constraints, which are substantially similar for all these forms of enterprise; it depends chiefly upon differences in institutional constraints, and the main task of the following chapters will be to examine the influence of institutional constraints in consumers' co-operation.

It must, of course, be remembered that limitations are imposed upon the development of the co-operative system by the fact that it has to work in a society in which industrial organization is mainly capitalistic. A co-operative undertaking is not actuated primarily by the profit motive; but it cannot, as a voluntary organization, work at a loss, in the ordinary sense of the term. In short, it must to a large extent accept the criteria of the capitalist system, whereas, in a socialist economy, other criteria than that of financial profit and loss might, in theory at least, be adopted. Further, the co-operative system, in common with democratic organization as a whole, is equalitarian in tendency and principle; but in a competitive society scarce abilities can command a high price; and if a co-operative undertaking, working within such a society, is to use such abilities, payments of the same order may have to be offered, although this is offset to some extent by incentives peculiar to the co-operative movement. Finally, so long as the powerful interests of privately owned capital exert so strong an influence on public opinion and taste, and on the functioning of government, it is impossible for the co-operative system to operate freely in its own way, although it already exerts an influence in society out of proportion to the amount of capital which it controls.

To sum up, democracy in the industrial sphere demands that economic power shall be used for the good of all, and that all who handle such power shall be sensitive to the will of those who are affected by the way in which that power is used. Co-operative societies, within their limitations, give real experience of industrial

democracy in action; their success, measured not only by financial results, but also by service given, offers a test of the practicability of democratic control over industrial activity. The questions to be asked in assessing the reality of co-operative democracy are, first, how far the constraint which the members can exert on the administration of a society is effective in preserving the sensitivity of the management to their desires, and secondly, how far the placing of institutional power in the hands of organized consumers satisfies the demand for economic democracy.

§ 2. *Organization of Democratic Control*

The local retail societies are the foundation of the whole co-operative structure and it is, therefore, with them that the study of democratic control must start. The body politic is in this case the whole body of members of a retail society to whom the governing body is ultimately responsible.

In general, there are no restrictions on membership of a co-operative society, but societies have the right to expel members. There is usually a minimum shareholding of one or two £1 shares, but this is a device for the financing of the society, and is not intended to impose any restriction on membership. The members' shareholding may be built up gradually; it is usually accumulated out of dividends on purchases. Special arrangements are made to allow of delay in payment in the event of sickness, unemployment or the like. The rights of membership may usually be exercised after the payment of the entrance fee, amounting to 6d. or 1s. In the past, some societies only accepted one member from each family, while a few would not accept employees as members. These restrictions are now almost obsolete. Occasionally, in an effort to enforce boundary agreements, those resident outside the area of a society are not accepted as members, but this is rare. There are thus at the present time few restrictions on membership, and the restrictions still remaining are fast disappearing. Further, full dividend is only paid to members, so that there are few regular customers who are not members of their society. The result of these arrangements is twofold. First, since membership is open to all, there is no way in which a group or class within the membership may obtain control to the *legal* exclusion of others. Secondly, there is a positive incentive for all customers to become members, and they are in a

position to exert control without further formality, should the occasion arise.

The detailed administration of the affairs of a retail society is performed by the management committee and permanent officials. The relations of the committee and officials in the ordinary conduct of the society's business have already been considered; here we are concerned with the extent to which the "management" (i.e. both the committee and the officials) is sensitive to the will of the membership and with the devices adopted to ensure this sensitivity.

In a normal society, the higher control is in the hands of an elected committee. It is usual for committee members to be laymen serving in their spare time. The close relation of the committee and officials, together with the fairly detailed business transacted, lead the committee members to develop a definitely "official" outlook. Further, in some societies, the demands on a committee-man's time are considerable, so that here the occupational composition of the committee may not be typical of the membership. It cannot for these reasons be considered merely as a normal sample of the membership, administering for the membership; it must rather be viewed as an integral part of the management, with its own distinctive viewpoint and experience, requiring continual checking up by the rank and file.

Thus, on the one hand, there is the membership, consisting of the customers of the society, and, on the other, the administrative machine —the committee, the permanent officials and the trading structure with its hierarchy of control. What are the devices by which the will of the membership influences the working of the machine, and by which the management is rendered responsive to that will? There are two main constitutional devices: the vote and the members' meeting. There are also certain extra-constitutional organs, notably the Guilds, and the unorganized operation of personal complaints.

The principle "one member, one vote" is universal in the co-operative democracy, but the actual arrangements of voting and constituencies vary somewhat. The use of the ballot in the election of the board is almost universal. Voting may take place either at the general meeting or in the shops. Fig. 31 indicates the method of voting in certain societies investigated.

There is not usually any arrangement for regional representation; where it exists, it is more usual to achieve the desired result by requiring residence in a certain area as a condition of candidature, rather

FIG. 31

METHODS OF DEMOCRATIC CONTROL IN CERTAIN RETAIL SOCIETIES

Society	Membership	General Meetings				Election of Management Committee		
		(1) Frequency of Meeting	(2) Number of Meetings	(3) Total Number Attending	(4) Percentage Attending	(5) Number Voting	(6) Place of Voting	(7) Term of Office (Years)
Birmingham	164,646	Q & M	1	500	0·30	650	M & C	2
Leeds	109,495	Q	68	2,600	2·37	2,500	B R	1½
*Barnsley	88,030	H	1	1,500	1·87	16,000	B	3
Leicester	60,466	Q	—	—	—	1,000	M	1
Walsall	40,545	Q	18	1,000	2·49	1,500	B R	2
Coventry	38,358	Q	3	300	0·78	1,800	B	2
Ten Acres and Stirchley	33,647	Q	4	350	1·21	700	B	1
Burton-on-Trent	21,481	Q	2	300	1·40	—	—	—
Kettering	20,550	Q	1	500	2·44	500	C	1
†Worcester	18,532	Q	1	200	1·08	350	M	1
Nuneaton	16,401	Q	1	500	3·13	350	M	1½
Dudley	15,356	—	—	—	—	350	M	1
Wolverhampton	13,735	Q	1	120	0·88	500	B	1
Coalville	13,266	Q	1	250	1·87	300	B	1
Rugby	12,554	H	1	250	2·0	400	B	1
Tamworth	9,301	Q	1	60	0·64	150	C	2
Alcester	8,690	—	—	—	—	100	M R	1

Kidderminster	8,572	Q	1	—	—	250	M	1
Lockhurst Lane	8,280	H	1	120	1·45	750	B	2
Stafford	7,839	Q	1	100	—	550	B	1
‡Halesowen and Hasbury	7,172	Q	1	75	1·46	250	B R	3
§Hinckley	6,521	Q	1	30	0·46	100	M	2
Shrewsbury	6,432	—	—	—	—	400	M	1
Oakengates	5,600	Q	7	900	16·10	650	B	2
Barwell	3,920	—	—	—	—	90	M R	3
Enderby	2,088	H	1	—	—	200	B	1
Burbage	1,642	—	—	—	—	55	M R	2
Bidford	1,412	—	—	—	—	—	—	—
Ironbridge	1,390	H	1	50	3·6	80	M	3
Atherstone	1,195	Q	1	25	2·4	25	M	1
Harbury	712	Q	2	15	2·1	—	—	—
Highley	557	Q	1	10	2·8	—	—	—
Stoney Stanton	521	—	—	—	—	18	M	1
Patby	306	H	—	—	—	12	M	1
Croft	293	H	1	15	5·1	—	—	—
Astley	287	H	1	20	7·0	20	M	½
Huncote	272	—	—	—	—	19	M	¼
Long Itchington	266	H	1	12	4·3	—	—	—
Cosby	258	Q	1	24	7·8	15	M	½
Kirby Muxloe	253	H	1	—	—	—	—	—

Notes to table on p. 254.

than by dividing the voters into constituencies, although this occurs occasionally. Employee representation on the management committee is considered in Chapter 4, page 88, and does not require further treatment here.

Canvassing for votes is usually not forbidden, but in small societies is not much in evidence. In large societies candidates sometimes offer a brief statement of qualifications, which is printed in the Quarterly Report. In the Lockhurst Lane Society there are definite interrogation meetings, chaired by one candidate, the others being on the platform. About 120 members are normally present at such meetings. Questions are asked, and the arrangement serves the purpose of assisting voters to know the candidates.

The other main instrument of democratic control is the general

NOTES TO FIG. 31

The tables containing data respecting general meetings and those respecting election of management committees are combined to allow of a comparison of numbers attending general meetings and voting at elections [columns (4) and (5)]. The figures in column (4) were obtained in conversation with officials and are only approximate. Column (5) is the result of a questionnaire.

Explanation:

Column (1) Q = meetings every quarter.
H = meetings every half-year.
M = also mid-quarterly meetings.

Column (2) Figures give the number of meetings, i.e. "1" indicates that there is a single general meeting, "2" or more that there are a series of divisional meetings.

Column (6) M = voting at general meeting.
C = voting at central premises.
B = voting at branch shops.
R = system of regional representation.

* In the Barnsley Society the part-time members of the committee are elected for a three-year term. There are also three full-time directors elected for a five-year term of office.

† The Worcester Society may only, by constitution, hold its general meetings in Worcester. Branch meetings, however, are held at five outlying centres at which ballot papers for the election of the management committee may be handed in and the agenda discussed. There may be no voting on resolutions or other matters.

‡ In the Halesowen Society there is the somewhat unusual device of a single meeting which takes place in rotation in each of four main centres in the society's area.

§ Voting for the committee of the Hinckley Society may only take place at the general meeting. The discrepancy between columns (5) and (4) is due to the fact that a contested election is rare. Normally the attendance at general meetings is thirty, but a contested election will usually cause a larger attendance of about the number shown.

business meeting, usually called the "Quarterly Meeting". This is constitutionally the supreme assembly of the society and various matters of business, such as purchase of property or declaration of dividend, sometimes require its official sanction. Special meetings of members have power to make constitutional changes.

The business of a general meeting will usually cover the following ground, except that some of the elections may be conducted by means of voting papers presented outside the meetings:

(1) Acceptance of Balance Sheet, Accounts and Management Committee's report, the latter including:
    Declaration of dividend,
    Sales statement,
    Capital statement,
    Property acquired and sold and development of premises,
    Notes of immediate importance (e.g. on Marketing Boards, recent political events, etc.).
(2) Reports of education committee and other special committees.
(3) Election of management committee, education committee, etc.
(4) Election of scrutineers, auditors, etc.
(5) Election of delegates and representatives (to C.W.S. quarterly meetings, Co-operative Union conferences, etc.).
(6) Reports of delegates.
(7) Resolutions proposed by members and by the board.
(8) Changes in constitution. (These may require a separate "Extraordinary General Meeting" which is commonly held after the business meeting.)

The simplest organization is that of a single meeting, which may be attended by any member. As will be seen from Fig. 31, this form is found even in some of the largest societies (e.g. Birmingham). When the society covers a scattered area, especially if it is without a clearly marked centre, the device of divisional meetings is usually adopted. These meetings are described fully by the Webbs[1] and need no further description, except to say that they are legally all part of the general meeting; the same business is laid before each and votes of all meetings are added together. A member is only allowed to attend one such meeting, but is usually free to choose which he attends. Two exceptional methods of organization are given in the notes on Fig. 31 but, in general, single meetings or co-equal divisional meetings are the

[1] *The Consumers' Co-operative Movement*, pp. 52–3.

rule. Meetings are usually held quarterly, but half-yearly meetings are not uncommon in small and medium-sized societies, and they are probably becoming slightly more common. Meetings are held monthly in a few Scottish and a very few North of England societies. When meetings are held quarterly, the business is sometimes the same at each meeting, namely the presentation of balance sheet, full accounts, sales statement, and committee's report. More commonly, however, the balance sheet and accounts are drawn up for the half-year, and the intervening meeting is concerned with the sales report, discussions of general business, and election of committees. In the case of the Birmingham Society, there are mid-quarterly meetings, primarily for the nomination of candidates, but at which the general work of the society is also discussed.

The percentage of members attending the general meetings is usually small. The figures in Fig. 31 are not very accurate since they are based on estimates; it can be taken that 2 per cent. of the membership is a normal attendance at a general meeting. This includes members of the board, so that in the case of the small rural societies, the number of other members attending is often very small indeed. It has been known in such a society for a meeting to consist of the committee together with one other member, who has been brought in to propose the acceptance of the report. It would appear from the figures that the plan of divisional meetings is definitely effective in increasing the percentage of attendance in the case of the larger societies, some of which fix a quorum for the general meeting, but usually at so low a figure as always to be attained.

Large attendances at general meetings are generally the result of some apparent abuse or internal inefficiency, of a drop in the dividend, or of some particularly controversial issue, for instance, the question of political action; but these occasions are rare. It is the "fine weather" attendance which is given in Fig. 31. It appears, although the evidence is rather doubtful, that there has been a tendency in recent years for the numbers to increase, especially in the case of rural societies.

Elections and general meetings form part of the constitutional machinery of a society; but they do not complete the picture of democracy in action. An active democracy requires more than means whereby the will of the membership is expressed and made effective. That will must first be formed; hence, like political democracy, the co-operative democracy depends on discussion and on organs for

discussion which have no place in the constitution. These latter may take various forms. In a few societies there are temporary or permanent "vigilance committees". In the London Society there is the extra-constitutional Members' Association. By far the most important and widespread organizations of this type, however, are the Guilds, which have been described in Chapter 15.

§ 3. *Co-operative Democracy at Work*

To pass from a description of form to that of content in dealing with social organization is to enter a more difficult world. The first can be found in rule books and constitutions, while the second can only be learned from experience of the machine in action. The quality and content of social institutions are of greater significance than the forms in which they manifest themselves, and are more difficult to appraise. Nevertheless it is only in this qualitative study of co-operative institutions that we can assess their democratic character.

Although in a certain number of cases exceptional forms of democratic control have developed, forms which are of considerable experimental interest, in the vast majority of retail societies in this country, democratic control is exercised through the two organs already described—the management committee and the general meeting.

The constitutional form of the election of the committee is fairly uniform, but its actual character varies; societies may be classified in this matter into three groups:

(1) In the small societies members of the committee are automatically re-elected after each term of office and are very rarely opposed.
(2) In most societies elections are regularly contested; the retiring candidate is, however, usually, but not invariably returned. There are a number of candidates who regularly appear at each election, hoping to obtain a seat when a vacancy occurs. In this case voting is practically confined to active members who regularly take part in general meetings of the society, Guild activities, etc.
(3) In a few larger societies conditions resemble parliamentary elections much more closely. A larger percentage of the membership take part—many more than habitually attend general meetings or have any real knowledge of the candidates. The local press takes a hand and may "run" certain candidates. Parties make their appearance,

usually corresponding roughly to the political parties. Although this state of things means participation by a greater percentage of the membership, it may be doubted whether it makes for greater efficiency or a wiser choice of directors. It has usually come into being as a result of an effort on the part of a political group to seize the co-operative machine.

In general, there is a very considerable continuity of tenure for members of co-operative committees. It is unusual for a retiring member not to be re-elected or for a large change in the committee to result from an electoral swing. Where this does occur it is usually the work of some organized section such as the employees. With the exception of the few societies whose elections follow the description in (3), the election of the committee is closely associated with the general meeting. This is important, since it means that most of the candidates are known to the voters before election. A common charge against the co-operative membership is that of apathy. The low percentage attendance at general meetings is quoted as evidence of the failure of the democratic method, and it is asserted that the control exercised by members at a general meeting of a co-operative society is as ineffective as that of shareholders at the shareholders' meeting of a limited company. In each case, it is said, real control lies with the board and in consequence there is no significant distinction between the two methods of organization.

This is a very superficial reading of the facts, however. In the first place, the nature of the control is essentially different. The shareholder is almost entirely concerned with a quantitative result, the financial return on his capital. He limits the expression of his will to this one demand, with the power of withdrawing his capital or voting against the board if he is dissatisfied. Under these circumstances it is only to be expected that control exercised by shareholders should have become unreal. The co-operative member, however, is demanding a series of services; his criterion of the work of the board is their effectiveness in providing them. The criticism of the service offered requires the exercise of a more complex and qualitative judgment by the membership. To put this in another way, the board of a limited liability company knows what the shareholder wants without his expressing it; the board of a co-operative society only knows the exact demands of its members when they express themselves. Thus the general meeting of a co-operative society has a continuous and

real function in the expression of opinion which the shareholders' meeting of a capitalist concern does not possess.

In assessing the effectiveness of the general meeting, we are concerned, not so much with the participation of the membership, as with what has been called the sensitivity of the management committee. How far does the general meeting serve to render the committee sensitive to the will of the members, and how far does the relatively small percentage of members attending the meeting affect its ability to perform this function? Consider first the case of the medium size society (about 5,000 to 50,000 members) with a single general meeting. This meeting will probably consist, on an average, of about two or three hundred members. Obviously, this gathering is much too big for effective discussion with a view to the positive formulation of policy. Its primary function is one of criticism. It was stated as one of the basic principles of democracy that the ordinary man should have the right of criticizing the use of power if he is in any degree affected by the way in which it is exercised. Through the general meeting such criticism may influence both the governing body and the membership. It seems that a meeting of not more than 400 is suitable for this purpose. The members' meeting, as it works out in practice, may be viewed as a self-appointed, representative democratic body; the non-participation of the majority of the members results, without the complexities of elections, in a body of convenient size and capable of effective criticism. A marked increase in the proportion of members present would make the existing type of machine unworkable in the case of the larger societies.

The small participation of the membership may, however, have certain undesirable results. First, the influence of any organized body within the membership grows as the participation of the general membership diminishes. In extreme cases it may be possible for one section (e.g. the employees) to obtain virtual control of the affairs of the society. It should be remembered, however, that the potential power of the membership can always be called into action if the organized element abuses its influence. A distinction may be drawn between non-participation and apathy. It is apathy which allows undesirable influence to be exerted by sectional interests. The fact that a large part of the membership does not habitually participate in general meetings will not matter if it preserves a fairly active interest in the running of the society. Secondly, democratic control is not

purely a one-way process; it is also necessary that the membership should understand and co-operate with the management. The general meeting is not just a means by which the membership may express their will; it is also an opportunity for the membership to learn what the society is doing, to appreciate the reasons for the management's policy and to help in carrying it out. In this way the discontent due to misunderstanding may be avoided. To achieve this result, it is not necessary that the majority of the members should attend general meetings. It is sufficient that there should be a representative gathering, since the discussion of the business transacted will reach a much larger proportion of the membership.

Thus the general meeting of a retail society is organized, not for the detailed formulation of policy, but for discussion and criticism; it is normally a representative body; and it provides an opportunity for the membership to understand the policy of the management. How well in practice does the general meeting perform these functions?

In addition to the unorganized membership, the main groups who may be present are the employees, the members of Guilds, and the politically conscious members. The participation of these groups differs widely as between different societies. The attendance or non-attendance of employees at general meetings seems to be very much a matter of tradition. In some cases employees, though not excluded, do not feel that it is their place to take part in meetings, or they may have had enough of the society all day and do not want it in the evening; in other cases they are one of the main elements present. Probably the usual situation is for a small number of co-operative enthusiasts among the employees to attend regularly, though cases occur at times of employees packing a meeting on some particular issue, or in view of some grievance. The N.U.D.A.W., it may be noted, encourages its members to take part in their societies' affairs.

It was the Women's Guild which originally brought about the participation of women in the business of the societies. As a result of their efforts, it is usual for at least half—sometimes considerably more—of those present at societies' meetings to be women. Not all of these will be Guild members, but members of the Women's Guild are normally the largest single group present at the general meeting. The Men's Guild is much smaller and is not found in all societies; when members of the Men's Guild are present, however, they the usually more vocal than the women. It is part of the policy of are

Guilds to prepare themselves carefully for effective participation in the societies' meetings. To this end they usually make a detailed study of the report and balance sheet at the Guild meeting preceding the general meeting of the society.

The politically conscious members, though not necessarily organized within the movement, form a group regularly present at the meetings of most societies; they are very vocal and represent a viewpoint not necessarily coincident with that of the main body of the membership. They normally reflect the varying shades in left-wing opinion and, of course, may overlap in personnel with the other groups.

In addition, there is a varying number of the unorganized membership, usually (except during a period of discontent) the more thoughtful section. These will also include a fair number of elderly people who attend out of a general sense of duty, but do not take much part in business.

The general meeting is thus in no sense a random sample of the membership. Those attending are usually disinterested in the sense that they are not concerned with obtaining any immediate personal or sectional advantage from their influence in the society's affairs. There are only three exceptions to this. The road to a seat on the management committee is normally via the general meetings. It is only as a candidate becomes known to those members who attend such meetings that he can hope for success. Hence some members attend in the hope eventually of obtaining a seat on the committee, but the advantage in this case is one of prestige rather than of financial gain. In some areas the political element appears to take part with an eye to help from the society's funds, and to the possible party advantages to be obtained by a control of the society's activities. The main element, however, who might be in a position to exploit their influence, are the employees. This raises an important problem of co-operative democracy which is discussed fully in Chapter 19. It suffices to say here that, as a general rule, the participation of employees at general meetings is very restrained and directed to the general well-being of the society. There is little need for them to press their interests, for the working class point of view, which is so strongly evident in the quarterly meetings, shows itself in a natural sympathy for the employees, and many of the demands for improved working conditions originated, not with the employees, but with the Guilds. Indeed, in view of the definitely altruistic tone

of meetings, any attempt to press a line of policy for obviously self-interested motives would be unlikely to succeed.

The main opportunity for criticism by the membership occurs in the presentation of the sales statement, accounts and committee's report, which are taken page by page. It is open to any member to ask questions. The committee and chief officials are present on the platform and are naturally to some extent on the defensive. There is a marked "feeling of the meeting" on important issues, to which the management is sensitive.

A list of the questions asked and criticisms raised at a quarterly meeting of a fairly large Midland society may be of interest. They arose during the submission of the board's report and are fairly typical; they are not, of course, reported verbatim and were in fact often surrounded by a considerable amount of rhetoric. Each number represents the contribution of one speaker.

(1) "Why is it that you will not deliver furniture to me at 'A'?" (a point in the area of another society).
(2) "Are shop assistants paid for overtime, and, if so, what are the arrangements for them to claim?"
(3) "What were the names of the private firms voting with the co-operative societies for a reduction of retail prices at the recent meeting of the milk distributors under the Milk Marketing Scheme?"
(4) "Why is there still no grocery branch at 'B'?" (a new housing estate).
(5) "Why is it not possible to obtain screws, bolts, and nails at the central premises?"
(6) A complaint about the lighting of the passages at the central premises during evening meetings.
(7) (*a*) "If you cannot reduce the price of milk, why not reduce bread prices, as these are not controlled?"
(*b*) "It has been suggested that political action is our remedy for the milk scheme. Is this true, in view of the fact that the Labour Party introduced the scheme?"
(8) "Why is there no dividend on removals or house painting?" (They were the subject of a direct contract.)
(9) A suggestion that a special dividend be given on milk.
(10) (*a*) "Why is there no drug store at the central premises?"
(*b*) A complaint about the quality of the café.
(*c*) A suggestion that the society should break the law by reducing milk prices.

(11) A complaint about the administration of the special relief arrangement for members.
(12) A complaint about potato prices in a certain area, comparing prices in co-operative and private stores.
(13) Questions on the dismissal of assistants.

As can be seen, some of the questions are irrelevant, or based on a misunderstanding. The complaints, however, are frequently well informed and well presented when they come from persons experienced in trade union and political activity who are probably skilled above the average in criticism of this type. There are some, however, among the members who are not so skilled and who may make speeches which appear to be irrelevant and which may be cut short by a hasty chairman; but they may be trying to explain something quite real, and such hasty action will leave a sense of discontent and may cause the loss of a genuine contribution. Good chairmanship is an unusually important factor in the conduct of a co-operative general meeting. Replies are given from the platform to questions and criticisms either by officials or by the chairman of the appropriate sub-committee.

Later come reports from delegates, usually received without comment although with varying interest. Finally, there are changes of policy, which may be divided into changes sponsored by the committee, but requiring the sanction of the whole membership, and resolutions from the membership. Motions proposed by the committee are usually passed without difficulty, although sometimes after a good deal of discussion. Motions from the floor of the house are sometimes criticisms more clearly formulated by being presented in this way and are commonly the subject of more controversy. Committees are not bound by any resolution on general policy (except, of course, a change in rules); the only redress the membership have is that of removing the committee. Nevertheless it is unsatisfactory to have a resolution minuted which is not observed, and management committees are considerably influenced by such resolutions. It must be remembered that the attendance at a general meeting is rather more progressive than the average of the membership, and in consequence the committee normally takes up what appears to be a reactionary position, because it has an eye to the whole membership.

The length of time occupied by a quarterly meeting varies very much as between different societies; probably two to two and a half hours is a fair average for the meetings of large and medium-sized

societies. A noticeable feature in many societies is the amount of time given to discussion of trade compared with other matters. The discussion of business is usually efficient, with an intelligent exchange of question and answer between the membership and the committee. When this is finished, probably in under an hour, a disproportionate amount of time seems to be given to discussions arising on the reports of the education committee, on the Co-operative Party, on general political issues, on donations to hospitals, etc.

In the case of larger societies, instead of a single general meeting, separate meetings may be held in different parts of the area. The advantages of these "divisional meetings" are (1) the distance of travel for members is reduced; (2) by reducing numbers at each meeting, the size becomes more suitable for discussion; (3) by separating off the membership in a distinct area, the members in that area are allowed to express themselves as a group. On the other hand, divisional meetings usually make it impossible for the whole committee to attend all the meetings. This is a disadvantage, since the main value of the general meeting lies in the direct contact between the membership and the committee, and it seriously reduces the vigour and reality of the proceedings if there is not a representative number of committee members present. A minor disadvantage, but one which causes a considerable amount of trouble, is the difficulty of voting on a resolution with amendments in a series of divisional meetings, since the vote has frequently to be taken on the resolution without the result of voting on amendments being known. The divisional meeting is a useful device which is almost unavoidable in some areas; but as a general rule, a few large meetings seem preferable to a larger number of small meetings.

Two types of society must be distinguished in which the character of democratic control differs significantly from that outlined above, namely, the small village society and the regional society of the South. In small societies, as a rule, very few members attend, and in societies with a membership of less than 1,000 there may be only one or two members present who are not on the committee. This is accompanied by a change in the nature of the general meeting: business is transacted much more rapidly and formally than in a larger meeting, and there is usually very little criticism or discussion. The small society in a village is really a type in itself. The co-operative store is not a competitive trading concern with its own special mem-

bership and political character, as in urban areas. The shop is a village institution which happens, in such a village, to be managed by a committee. Service on this committee is viewed in much the same light as serving on the Parish Council. The secretary is a well-known village figure, and complaints or suggestions reach him without delay. The shop becomes a centre of village discussion, and the character of co-operative service, alongside the latest local scandal, is a regular topic. Under these circumstances there is no need for a general meeting in which a representative body of customers meet with the management and discuss the service offered. The general meeting is still necessary to ensure that the administration of property is in order and to preserve a device which may be necessary in case of abuse; it is superfluous as an organ for the expression of the will of the membership.

The regional societies of the South are at the opposite extreme from village societies, and represent the final stage of a transference of emphasis which is going on in certain sections of the co-operative democracy. In the days of the Rochdale Pioneers, groups of men combined to do something for themselves. The primary fact for them was that their society was something that they, personally, were creating. Even to-day, in most societies, that same feeling persists. The society is something to which the member belongs in more than a general sense; its well-being depends upon his playing his part; it evokes loyalty because of a consciousness that it is only by loyalty that it can exist. The majority of the members may not have this sense in any highly developed form, but they are usually conscious of the society as a part of the local life, run by the efforts and enterprise of men who are known to them personally. Contrasted with this, and reaching its culmination in the regional societies, there is the conception of the co-operative society as existing externally to, and independently of, the members, providing certain services in the district, with a board of management sensitive up to a point to their needs; to some extent the members feel that they can influence the board by their actions, but they are not primarily conscious of their *membership* of the society. This distinction may best be illustrated by contrasting the attitude of a member to a small voluntary association (e.g. a sports or social club) with that of a local resident to his city council or to a public service corporation. In each there is the problem of the sensitivity of the governing body to its constituency; in each

there is the question of the active participation and interest of the rank and file. But there is a difference in the character of the relationship. The larger and better established a co-operative society becomes, the more the relation of the members approximates to the second type; and the "regional" type of society has an influence in this direction which is not due merely to its size. The members of a society operating a chain of stores over a wide stretch of country cannot stand in a very personal relationship to the management of the society, possibly located in a distant town; in fact, to an outlying member, the retail society appears to stand in much the same relation to him as does a large electricity undertaking. There is a very marked distinction between the character of the quarterly meeting at the central premises and at other towns in the area of a regional society. The attendance at the central premises is much larger and more representative, a result probably of a traditional loyalty among the members. In the other divisional meetings, attendance is usually very small and consists almost entirely of members of the Guilds and the political elements. In the town in which the head office is situated, there is a clear recognition of the co-operative nature of the society and a corresponding interest in its affairs. In other towns, the society is viewed by the rank and file members merely as a convenient chain store. This change does not necessarily mean a complete loss of democratic control; for the management of the society is still responsible ultimately to the membership. But the sense of responsibility is less intimate and resembles more closely that which obtains in a public-service corporation.

With the growth in the size of the society, there is much less concern on the part of the members attending quarterly meetings about the trading activities of their society. The part taken in the discussion at quarterly meetings by political and other special groups increases, so that the meetings are concerned with politics rather than with trade. This political discussion has very little effect on the actual policy of the society and is, indeed, mostly irrelevant to it. There is also a tendency to elect directors on the basis of their political views rather than for their business competence. All this throws the responsibility for higher business control largely on to the officials. As a result, the influence of the permanent officials as against that of the committee or of the membership is much greater in societies of this type.

Another difficulty of regional organization is that of discovering leaders among the members, and this has resulted, in the London Society, in the formation of a "Members' Association". This association is the regular stepping-stone to the board, for there are practically no other society-wide organizations by which individuals may become known to the active membership throughout the society's area. In the other regional societies, the leaders seem to be drawn primarily from the area in which the head office of the society is situated. While in these and other ways the regional form of organization raises serious difficulties of democratic control, it must not be thought that this situation is typical of co-operative democracy or that all societies are tending in this direction. Over most of Great Britain the society serving a single population group is the rule and is likely to remain so.

§ 4. *Experiments in Democratic Control*

A few societies have departed from the standard forms of democratic control and have developed new experimental organs, mainly with the object of stimulating the membership to greater activity or of increasing the effectiveness of democratic supervision. These experiments are of interest because they throw additional light on the problems of democratic control of industrial activity. The two most important are the organization of local committees and the establishment of an elected representative assembly to come between the membership and the management committee.

The aim of local committees has been to interest a larger body of members in the society by giving them immediate local activities, and also to impose a direct democratic influence on the branches. Several societies have tried the experiment of local committees, but in some cases (e.g. the Lincoln Society) they have ceased to function. There are active local committees in the Ten Acres and Stirchley Society (Birmingham), the London Society and the Leeds Society.

The local committees of the Ten Acres Society operate as part of the Education Department and are financed out of its funds. There are fourteen such committees of twelve members each, elected—except for one representative from the board of management and one from the education committee—at district annual meetings. These committees have only an advisory function in relation to the control of the society; their main work is propagandist and consists in arranging

local propaganda meetings, running socials and similar local activities, and organizing a system of visits to members. The last of these is probably the most important. Members of the committee visit new members and establish friendly relations with them. They are instructed not to make this primarily an opportunity for collecting complaints, but to aim rather at positive co-operative propaganda. Complaints are received, however, and these are discussed at the monthly meetings of the local committee before being forwarded to the proper quarter. The committees also discuss the trading development of the society, so that members may be conversant with the services offered. The educational development of this society is in keeping with the whole character of the district; Bournville and Selly Oak are active centres of adult education, and the Adult School Movement flourishes throughout the society's area. The success of the scheme is probably largely a result of this social environment.

Each of the local committees of the London Society covers a fairly large area, and keeps a watch over the general trade in it; each presents a short report which is received, along with the management committee's report, at those divisional meetings which occur in its own area. They seem to be effective in developing a certain degree of suburban loyalty in a society which is far too big and scattered to have a sense of unity as a whole.

The Leeds Society has built up an unusually elaborate system of local committees. The organization of this society, as it existed in 1921, was described fairly fully by the Webbs;[1] but in view of its peculiar interest and the fact that certain changes have taken place since that date, it will be well to outline the present organization. In contrast with the Ten Acres Society, the local committees are part of the constitutional structure of the society. The sixty-eight ward meetings form the basis of the Leeds democratic system. They transact the usual business of a quarterly meeting, including discussion of the reports, accounts and balance sheet, voting on resolutions, and election of the local committees, one of which is appointed by each branch store. The total attendance at ward meetings is about 2,600. A local committee consists of three members, a chairman, a secretary, and a stocktaker, and meets fortnightly, in theory in its own branch. The committee receives a sales statement from the branch manager and is supposed to advise him. Actually, the practice has changed, and the

[1] Op. cit., pp. 53, 59–61.

committees rarely meet singly, but normally in groups of about four or five. The area of the society is divided into four districts, and each month there is a district meeting of all local committees in that district; this meeting is probably the main source of criticism and complaints. There has been an extra-constitutional development since the account given by the Webbs, in that each district meeting appoints representatives to a central assembly of branch committee representatives. This body has no constitutional status but acts as a powerful shadow cabinet and usually as an opposition to the management committee. There is also a constitutional body known as the quarterly conference of local committees. This meets just before the ward meetings and all members of local committees attend. The purpose of this conference is instruction rather than criticism or discussion. Instruction is necessitated by the very large number of ward meetings, which have in general to be conducted without a member of the management committee being present, and the responsibility for the conduct of which therefore falls on members of local committees. The quarterly conference gives them the opportunity of examining the trading accounts and reports of the society and education committee in advance.

The building of an active democratic structure of this complexity is a real achievement, but certain points of criticism arise.

(1) The scheme is undoubtedly disliked by the employees. This may be partly because the local committees exert a healthy supervision. It is also due to the feeling that the local committee structure deliberately foments complaints and is the cause of irresponsible criticism. The position of the branch manager, responsible both to his local committee and to his departmental manager, is not satisfactory.

(2) The various bodies making up the organization are apt to be taken up with general political discussion, rather than with discussion of the trading policy of the society.

(3) The fact that directors are not present at the ward meetings leads to a certain vagueness in discussion. The local committee-men present have, admittedly, been instructed in the content of the report, but they still tend to be something of an opposition party. The meeting is thus liable to drift into a vague atmosphere of dissatisfaction with the board, without the possibility of direct question and answer and exchange of opinion between the management and the membership, which is the value of the ordinary general or divisional meeting.

The main difficulty of the system is to define the exact function of a local committee. The original purpose of the Leeds local committees, each with its stocktaker, meeting in the local branch, was obviously to exercise a degree of supervision so detailed that it amounted to a type of management. As far as this aim has been attained, it has led to discontent on the part of the permanent staff and to the usual difficulties arising from amateur interference and divided responsibility.

The method adopted in the Ten Acres and Stirchley Society of making propaganda the primary purpose of the local committee, and keeping its supervisory function subsidiary, seems much more satisfactory. This work, however, might well be undertaken in most societies by the Guilds. The local committees of the London Society are perhaps the most successful in performing their main function of supervising trade. They keep a watch on the trading facilities in a single area, but exert their influence on the management; they have no executive or even advisory power over the employees in their own areas. Further, each committee caters, not for a branch as in Leeds, but for a large area—perhaps a group of suburbs. Experience so far suggests that local committees in regional societies are likely to succeed only where each committee caters for a section of population which, in other places, would be large enough to have a separate society of its own.

In addition to incorporating a local committee system, the constitutional structure of the Leeds Society provides the only existing example of a representative assembly, and it is this which attracted the particular attention of the Webbs. It is, however, the central assembly of branch committee representatives which now seems to be the effective representative assembly, rather than the quarterly conference of local committees. In certain of the regional societies of the South, rules revision committees have suggested the setting up of similar elected representative assemblies to come between the membership and the management committee. It is significant that these proposals have invariably been rejected by the members in general meeting; but the suggestion for an extension of this device is not dead, and still frequently recurs. Such a development would do little to render the participation of the rank and file more effective, for their only function in connection with the assemblies would be that of electing delegates—a form of democratic activity which is not, in

itself, particularly fruitful. The most important argument advanced in support of the scheme is that such representative bodies could provide a more intelligent criticism of the management than the general members' meeting. There is, however, little to suggest that such a body is more suitable than the present "self-elected" meeting. From the standpoint of the member, the fact that anyone with a real grievance or contribution has at present the right to attend the general meeting and voice it personally to the committee in the presence of an influential section of the membership, is of vital importance. For this reason any change which would eliminate the general meeting or reduce its importance is likely to lessen the reality of democratic control. Only if the attendance at general meetings became unmanageably large would the change to representative assemblies become necessary or desirable.

A possible form of organization not open to the same objections would be a "members' council", with purely advisory powers, existing alongside the ordinary general meeting. Such a council might, however, detract from the vitality of the general meeting or—what is more likely—might share the fate of most advisory bodies without responsibility, and die of inertia. At present it is always open to members, if they wish to make their criticism of the management more effective, to set up extra-constitutional bodies for this purpose.

Chapter 17

CONTROL OF FEDERAL UNDERTAKINGS

The most important step in the history of the consumers' movement, after the founding of the Rochdale type of society, was the setting up of federal organizations controlled, not by individual members, but by consumers' societies. The modern evolution of the movement is steadily increasing the importance of the federal undertakings, in regard both to trade done and, in the case of the national wholesale societies, to their influence on the economic policy of the movement as a whole. For this reason, democratic control of the retail societies, without a corresponding control of the federal societies, would be of little value. The nature of the problem is, however, essentially different in the two cases, for a federal society is responsible directly to a series of trading concerns, and only indirectly to the individual members.[1] The term "consumers' control" as applied to federal societies producing intermediate goods and services is, indeed, capable of two interpretations. The "consumers" may be taken to be the member societies, who directly consume the output of the federal undertakings, or alternatively they may be individual members of the retail societies who are the ultimate consumers. In actual practice, the direct pressure of democratic supervision over federal concerns originates mainly with the committees and managements of member societies; in some cases, these will be acting primarily on behalf of their societies' trading interests; in others, as representing the individual membership. When a federal society undertakes direct retail services, the latter interpretation only is applicable.

The legal forms of federal societies are similar to those of ordinary societies; they are registered under the Industrial and Provident Societies Acts and are controlled by boards of management elected by the member societies. It is important to distinguish between the four main types which have already been described, viz. national wholesale societies, national specialist societies controlled by the wholesale societies, national specialist societies directly controlled by

[1] There are a few societies which were originally "productive" societies, but have come so far under the control of retail societies that they may be considered as federal undertakings, although they still have some individual members.

retail societies, and local federal societies. The extent of operation and the number of member societies, affect profoundly the character and method of democratic control. There are certain non-trading concerns also organized as federal societies, which are discussed elsewhere, the most important being the Co-operative Union; this chapter is, however, confined to a consideration of trading undertakings.

§ 1. *The Wholesale Societies*

The great size of the national wholesale societies and the predominant position they hold in the economy of British Co-operation place them in a class apart: the question of the effective democratic control of these societies is of major importance in the movement as a whole. The arrangements for elections and general meetings of the C.W.S. and S.C.W.S. have been described in Chapter 7. The ultimate control of the wholesale societies is in the hands of the retail societies, and is exercised through the votes of their delegates at quarterly meetings. Thus the form of government of the wholesale societies, like that of the retail societies, is democratic. Owing to the system of allocating votes on the basis of purchases,[1] there is, however, the danger that the influence of a few large societies may far outweigh that of a large number of small societies. The system adopted by the S.C.W.S. of limiting the total number of votes allocated to the society having the largest purchases to 50, and grading the others proportionately, while it does not entirely remove this danger, does in fact, at the present time, prevent the dominance of any one society or small group of societies.

The influences—informative, persuasive and coercive—brought to bear upon the administration of the wholesale societies are varied and complex. The vast majority of day to day decisions, including those which involve matters of policy, are, as in any other large organization, in the hands of the permanent officials. There is a certain professionalism about the whole of the co-operative movement, akin to that of the Civil Service, and a sense of the solidarity between the various parts which is very noticeable as between the retail societies and the wholesale. This professionalism may degenerate into slackness and bureaucracy; at its best, however, it means that the officials of

[1] See Chapter 7, p. 143.

the wholesale are always ready to enter into consultation with the retail societies on matters of policy. Technical questions concerning the nature of products required and methods of supply are primarily the subject of direct personal discussion or correspondence between the officials involved. Perhaps the most distinctive feature of the relations between the officials of different co-operative trading undertakings is the absence of secrecy and the ready exchange of opinion and information. Further, executive officials of the wholesale societies, as well as the board, are influenced by the pronouncements of other co-operative policy-making bodies—the Co-operative Union, Co-operative Trade Associations, and Congress. Although not the official channels of democratic control, these influences are of great importance in determining the sensitivity of the undertakings as a whole.

The member societies exert a direct influence on the wholesale societies through the original choice of directors by election; through their votes when a director comes up for re-election; and through the quarterly meetings. The election of the wholesale societies' directors is peculiar in that it is not effected by the massed vote of a number of individuals, but by the choice of a series of organizations, for the voting of a retail society is almost always in the hands of the committee of management. This means that the vote is not the act of an individual, but the result of the discussion of a group. This group consists of persons who are in continuous contact with each other, experienced in business management of their own society, and with an intimate knowledge of the co-operative movement. This method rules out the pure demagogue; the arts which go to make up a popular vote-catcher would not withstand the discussion of a co-operative board room. Although there is no small controlling group, as is common in capitalist undertakings, the voting power of a relatively small number of larger societies is considerable.[1] In consequence, these societies will often reach an understanding as to how they will vote. This is in many ways an advantage, as the leaders, and especially the managing secretaries, of the large societies are undoubtedly in the best position to know the qualifications and the trading records of candidates; and the danger of falling a prey to the more superficial forms of vote-catching is lessened. The only possi-

[1] Thus in 1935, 600 votes were held by 500 societies, while over 800 votes were held by six societies.

bility of abuse occurs when these societies have representatives of their own among the candidates. Under these circumstances there is no doubt that bargaining sometimes occurs; one society agrees to vote for another society's candidate in return for support of its own candidate by the second society at a subsequent election. It must not be thought, however, that the influence of the smaller societies is negligible, especially when there is divided voting among the larger societies.[1]

A candidate to be successful must have played an active part in the co-operative democracy; he must be known to the management committees of the main societies and be trusted by them. The method of election tends to throw up those who are experienced in Co-operation, who have that pattern of behaviour which, though largely unconscious, results from long experience of the co-operative movement. Successful candidates must have shown their ability in committee work and in working with others. They must, above all, have impressed their fellow workers with their reliability and trustworthiness. Many of the activities which bring committee-men together—e.g. Congress and the committees of the Co-operative Union—are, however, not primarily concerned with trade. They provide an opportunity for judging the general character of a candidate rather than his ability in business administration. On the other hand, the development of local federal societies increases the contacts between members of different retail boards of management in the course of trade, and this growth of interlocking directorates is beginning to bring into being a director class from which the wholesale societies' directors may be recruited. Thus the process of election tends to produce a board which is fit to play its part in the co-operative structure, which is reliable and honest, and able to control in the interests of the member societies. The method of election is not, however, adapted to discover special enterprise or exceptional ability in administration; for that, it is necessary to look to the permanent officials.

The majority of wholesale societies' directors have been committee members of retail societies, although there is an increasing tendency, both in the English and Scottish societies, for permanent officials of retail societies to be elected to the C.W.S. or S.C.W.S. Board. This results in a directorate which is conversant with the needs of the retail societies, experienced in the control of retail trade rather than

[1] For proposed modifications in the present system of election, see note, p. 146.

of production. In a few cases C.W.S. employees who have also been leaders in their local society have been elected, but they have not usually come from the factory departments.

A seat on the board of the C.W.S. is definitely one of the key positions of the co-operative world. The method of election, as has been said, rules out the crude demagogue. If the method of election described is to be successful, it requires that the management committees of the member societies should know the candidates by meeting them in committee work or other business. Where the candidates are well-known co-operative figures, this condition is probably fulfilled. There are cases in which none of the candidates is known to more than a few of the electing boards, or in which the votes of the larger societies are divided; the result then becomes largely a matter of luck, and the way may be opened for a "good mixer", whose position brings him into wide but superficial contact with management committees, to obtain a majority of the votes.

The re-election of a director is practically automatic, and the retiring directors always receive a much larger number of votes than the nearest outside candidate. Loss of support will, however, restrain a director from any seriously unpopular act. Even if he is in no danger of defeat, the variations in votes received at elections will form some measure of the favour in which he stands with his constituency. The effectiveness of this is reduced by the collective responsibility of the board. The public activities of a director can be attributed to him personally, while his acts in relation to the trading of the society can not. Hence the course of voting is likely to be influenced by the popularity or otherwise of a director's public pronouncements rather than by the ability with which he performs his function of industrial administration.

The general meetings of the C.W.S. are held on Saturday afternoons and normally last for about two and a half hours. The largest meetings are the London Divisional meetings and the final meetings in Manchester, each usually consisting of about 700 delegates; the other meetings consist of 400 delegates or less. The total number of delegates present at all the meetings is usually about 3,000. The choice of delegates varies with the size of the society. In the case of the smaller societies, it is usual for one or more members of the board to attend; in a few cases the secretary or manager will be sent, and in others one of the ordinary members. Since the larger societies are entitled

to a considerable delegation, it is usual for several members of the board in rotation, and the managing secretary, together with one or more delegates elected by the membership of the retail society, to attend on each occasion. There is no doubt that the most valuable contributions to the discussion come from the managing secretaries of the larger societies. The value of the election of members' delegates, and of their subsequent report to the members, is rather doubtful. It is often difficult for the ordinary member to follow intelligently the procedure of the meeting. None the less, the election and report of members' delegates is probably of indirect value in ventilating more widely the affairs of the wholesale society, in interesting younger members in the larger aspects of the movement, and, most of all, in keeping the C.W.S. vividly before the minds of the rank and file co-operators.

General meetings are held quarterly, but balance sheets are now submitted only once a year, in April. The arrangement of the April meeting is consequently somewhat different from that of the other three meetings, both in procedure and in the information supplied. It consists of two sessions, the morning being given to a preliminary "balance sheet conference". Since this involves a discussion of the internal finances of the C.W.S., it is of a confidential nature; societies may send only three delegates, of whom only one may be other than an official or member of the management committee. A very full supplementary statement is provided, giving an analysis of departmental and productive expenses and a schedule of balances outstanding, and the amount of trade with all C.W.S. customers (over 1,000 in all). The main purpose of this meeting is to allow of an explanation and discussion of the balance sheet and supplementary figures; it is to ensure that there will be at the subsequent general meeting a section who understand the contents of the balance sheet and accounts, and who, incidentally, know the directors' views on matters under discussion. The constitutional general meeting takes place in the afternoon and follows much the same form as in the other quarters, except that the balance sheet discussed at the morning meeting is received. The number of delegates at this meeting is based on the voting strength of the societies. The business includes the following: consideration of applications for membership; acceptance of directors' report (and balance sheet in the case of the April meeting); declaration as to election of directors and auditors; donations

to charities, etc.; approval of board's action in relation to sale and purchase of properties.

The main discussion arises on the directors' report, which incorporates a departmental sales statement and is taken section by section by the chairman. Notice must be given of all resolutions, amendments and questions not arising directly out of the report. A few directors and certain chief officials are present on the platform. Business is transacted very rapidly and the whole meeting often lasts under an hour. The meeting is very different in character from that of a retail society; it is more formal and there is less spontaneous discussion. Those in attendance are definitely more expert and discussion is almost entirely confined to societies' officials and committee-men. In the case of the S.C.W.S., the balance sheet is presented half-yearly, and there is no separate balance sheet conference. The meeting starts at twelve noon and usually lasts until about teatime, being thus considerably longer than that of the C.W.S.

The general meeting provides an opportunity for examination of the societies' affairs and for the focusing of criticism. The general meeting of a retail society serves to call out the opinions and criticisms of a rather scattered and indefinite membership; the members of the wholesale societies stand in a much closer official relationship to their society. Normally, complaints and observations pass through the ordinary business channels, and the general meeting in consequence is not mainly an organ for the expression of opinion. If, however, a member society desires to bring any complaint vividly home to the board, the quarterly meeting provides an opportunity. A large society will frequently send delegates to all the divisional meetings, and if there is any serious ground for complaint, they are in a position to voice it at each meeting, thus influencing the feelings of other delegates and exerting a strong pressure on the directors.

The discussion between the members and the platform is less real than in a retail society meeting. In the latter case, there is a direct and usually pertinent reply by the official concerned, or by the chairman of the appropriate sub-committee, to questions from the floor of the house. In the case of a C.W.S. meeting, the matters under discussion are of a more technical nature, especially as regards production. Further, the divisional meeting organization means that only a few of the directors are present. While at least one member of each of the three main committees is present at every divisional meeting, it may

happen that no director present has special knowledge of some of the matters upon which questions are asked.

Democratic control of the wholesale societies is less obvious than in the case of a retail society; and if democracy is taken to mean supervision by the rank and file co-operator, it is indeed very tenuous. If, however, democratic control of the wholesale societies means control by the retail societies, then it is true to say that this control is very real and is continuously exercised.

§ 2. *Other Federal Societies*

Among the federal trading undertakings other than the national wholesale societies, the specialized societies controlled by the wholesale societies, i.e. the Co-operative Insurance Society Limited and the E. & S. Joint C.W.S. Ltd., may be dismissed with a brief statement. They are very similar to the "associated company" of capitalist trade. Under the Industrial and Provident Societies Act it is possible for two societies to put the business of one department in the hands of a legally separate society, but to keep it under their immediate control. From the standpoint of democratic supervision, these societies are in much the same position as trading departments of the wholesale societies.

The commonest form of local federal society is the fairly small society undertaking only one line of business. Most of them serve from three to twelve adjoining retail societies, but a few serve a much larger number. Democratic supervision of these societies differs very markedly from that of the wholesale societies. The size and importance of the wholesale societies focuses attention upon them, not merely among the management committees of retail societies, but also among the membership. The elections of the directors are important events observed by all co-operators; and the appointment of members' delegates to the quarterly meetings of the wholesale societies does result in at least a certain interest on the part of the rank and file. In contrast with this, the control of a federal society tends to be the concern only of the management of the retail society; it attracts very little notice among the ordinary membership. If the number of member societies is less than about twelve, which is the case in the majority of local federal societies, there are no elections; the member societies each appoint one or more representatives to the board of the federal

society—appointments which are usually made by the management committees of the member societies, although they may be formally confirmed by the members' meetings. When there are more than about twelve societies, the management committees send representatives to the quarterly meetings of the federal society, at which the federal board is elected. While it is usual for societies' representatives to be committee-men, there is an increasing tendency to appoint officials —the managing secretary or one of the departmental managers—to the boards of federal societies.

In the more modern federal societies in England, it is usual for board meetings to be very much less frequent than in retail societies or the C.W.S.—often only monthly. In consequence, the relation of members of the board to the federal undertaking is very different from their relation to their own retail society. Control is more remote, and the greater part of the administration is left to the permanent officials; in fact, the function of the board of a federal society is very similar to that of the board of a public limited liability company, since it is concerned only with appointing the higher officials, laying down the general lines of business, and supervising the efficiency of the service offered. Another point of resemblance with capitalist organization is that each undertaking is concerned with one line of business only, instead of following the usual co-operative practice of providing a great variety of products and services. These local federal undertakings appear to operate smoothly, without the membership of the retail societies having much consciousness of their activities. Where they supply a direct service to the member societies, the method of federal control is effective in maintaining efficiency of operation. Where the service of the federal society is provided direct to the membership (e.g. convalescent homes), the control exerted by the board of management may become less effective and the quality of service may come to depend largely upon the officials. Since publication of results is a wholesome check, there is a case for making retail societies publish abridged returns of all federal societies of which they are members.

In Scotland there are a number of federal societies with a larger number of members than the type just described and covering a larger area, often the whole of Scotland. An important example is the United Co-operative Baking Society, which provides bread for Glasgow and Belfast, and also biscuits and "small bread" throughout

the whole of Scotland. It is a very successful society and one of the largest bakery undertakings in the world. In societies of this type, control follows usual co-operative practice more closely. The board is chosen by election among member societies and usually meets weekly.[1] There is commonly a regulation forbidding members of the board of the federal society to be also on the board of their retail society. Election to the federal board is usually viewed as promotion; in consequence, members of federal boards are commonly of a high average age and consist entirely of ex-members of retail society boards of management. This type of federal organization, namely the national specialist federal society, is also illustrated by the Co-operative Press Ltd. and the Co-operative Printing Society. The main difficulty in these cases lies in making democratic control a reality. While the importance of the C.W.S. is sufficient to focus the attention of the member societies upon it, and the local federal society is in close and intimate contact with the boards of its member societies, the national specialist society is in danger of falling between two stools. In Scotland, in view of the relatively localized character of co-operative activity, this type of society is able to preserve its democratic, co-operative character; but in England, democratic supervision becomes very remote, and success is only likely in those lines of business in which stimulus to the management from competition, or from the inherent interest of the work, makes immediate consumers' supervision less necessary.

For these reasons, it seems likely that, unless the movement adopts some kind of planned development in which new national federal societies are created, the two most important types of federal organization in England, for the immediate future, will be the one-purpose federal society, undertaking localized production or service and catering for a relatively small area, and the single national wholesale society, undertaking all those types of trade in which the scale of operation is national.

[1] In some Scottish federal societies the member societies do not elect individuals but *societies*, the successful societies then nominating their own representatives.

Chapter 18

DEMOCRATIC CONTROL OF THE NATIONAL MOVEMENT

§ 1. *Central Control*

Effective democratic control in a scattered national organization does not come by chance, but only as a result of careful and deliberate effort. It is easy, on the one hand, for the national organization to become, by its very weight, a rigid bureaucracy in which the rank and file member does not count; or, on the other hand, there is the danger of its falling into a series of independent groups, between which there is no real unity. In a trading structure such as that of the co-operative movement, this problem presents peculiar features. When a series of local bodies possesses unity of purpose, but not necessarily a unifying organization, co-ordination of activities requires discussion and the working out of a common policy. In this way an integration of effort can be achieved. This does not require a central organization although this may be desirable to facilitate the necessary discussion. A subject much discussed at the present time is the significance to the democratic character of the movement of an increase in central control as against local autonomy. There is, of course, nothing essentially undemocratic in central control; democracy no more involves autonomy for the local unit than it involves anarchy for the individual. Compulsory national regulation may be thoroughly democratic, provided only that the central regulating body is so. Yet democratic control is usually more vigorous in relation to a local unit than to a national organization, and a more active democracy is likely to result if as much responsibility as possible is left in the hands of the local unit. A democratic system with considerable local autonomy has also a greater chance of survival in the face of organized opposition. It might not be difficult for sectional interests or for an unfriendly government to seize a centralized machine; but it would be much more difficult to destroy the freedom of a number of active local democratic groups. There are, however, many matters—for instance, retail prices—in which national regulation is very desirable in the co-operative movement, and such regulation would not limit local responsibility to any significant extent.

The national government of the co-operative movement is, in fact, a diarchy; that is, within each national area, there are two central federal organizations, the Co-operative Union and either the C.W.S. or the S.C.W.S. The constitutional organ of democratic government is the Co-operative Union, which also provides the framework within which political integration of the whole movement may become effective. The wholesale societies are members of the Co-operative Union; but their predominant position on the trading side gives them a pivotal position in co-operative affairs, so that they tend to assume a leading position in other than merely trading matters. The Co-operative Union is a federal body whose constitution has already been described. It is primarily an association of societies formed to provide them with various services; but it also regulates the policy of its member societies to some extent. It requires their constitution and aims to conform to its conditions of membership, and exerts a strong pressure on societies to accept its standards in relation to boundary agreements and conditions of employment. The only sanction within the existing legal framework which the Union can apply is that of expulsion from membership. While this has a certain moral effect and has been used occasionally, its power is limited, and, in consequence, the Co-operative Union has to be cautious in asserting control. The wholesale societies have a much more powerful sanction to hand, namely the refusal to trade with a society which will not conform to trading conditions. This weapon has not been used, however, and is not likely to be used in the immediate future. The sentiment of the movement demands that the wholesale societies should be regarded as the servants of the retail societies, and therefore strong feeling would be aroused if they attempted to assume the function of government.

The co-operative movement is thus an extreme example of federal government; and, although it is provided with well-developed organs for national regulation, these are almost entirely lacking in coercive powers. Further, since the Co-operative Union functions mainly as a regulating and defence association for co-operative retail societies, it is difficult to devise adequate representation of the federal undertakings and especially of the wholesale societies. The economic position of the wholesale societies is meanwhile forcing them steadily into a position of leadership. This state of diarchy is recognized in the recently constituted "National Co-operative Authority", a body consisting of the Executive of the Co-operative Union together

with representatives from the C.W.S., the S.C.W.S. and the Co-operative Party. The Authority has no governmental power within the movement, and its pronouncements do not officially represent the views of its constituent bodies. Its main purpose is to act as a court of reference between the meetings of Congress on matters demanding a united policy. Its pronouncements carry weight because it represents the main policy-making bodies within the movement.

The constitutions of the national organizations have already been described.[1] They are democratic, but the actual form of control by the membership differs considerably in the two cases. In the Co-operative Union, regular control is exerted chiefly through the Central Board and National Executive. The fact that the governing organs of the Co-operative Union form the framework within which much of the discussion of co-operative policy takes place, has the effect of making the National Executive sensitive to the problems and opinions of the movement. The affairs of the wholesale societies are equally subject to democratic supervision. But their position as great trading concerns, and their relations to the retail societies, mean that they tend to have a practical business outlook, and to be less concerned with theories and ideals. This dichotomy is perhaps unavoidable at the present time; but it results in certain inefficiencies and the possibility of friction. On the other hand, it leaves each organization free to pursue activities which might be hampered if the functions of the Union and the wholesale societies were combined in a single organization.

§ 2. *Political Integration in the Co-operative Movement*

In spite of the very limited powers of compulsion of its central organizations, the co-operative movement possesses a real unity of thought and policy. The scope for central regulation, even if constitutional powers were granted, is distinctly limited. It might be possible to legislate on clearly defined questions such as uniformity of prices. In more complex matters of policy, the active and willing co-operation of the local unit must always be required if a reasonable standard of efficiency is to be maintained. This active co-operation

[1] For Co-operative Union, see Chapter 12; Democratic Control, Chapter 19. For Wholesale Societies' Constitutions, Chapter 7.

requires persuasion rather than coercion. In consequence, whether the movement retains its present degree of local autonomy or whether, as seems likely, an increase in central regulation takes place, the existence of effective organs of discussion between the various parts of the movement will remain of great importance. In this way it is possible for societies to exchange experience, to understand each other's difficulties, and to work out a co-ordinated policy. The co-operative movement possesses many organs for discussion, provided in part by the Co-operative Union, in part by auxiliary bodies, and in part by specialist associations. The main opportunities for this type of discussion are:

(1) The Co-operative Congress.
(2) The Co-operative Union Sectional Boards organizing annual Sectional Conferences.
(3) The Co-operative Union District Associations, organized under district executives and holding quarterly conferences.
(4) The Trades and Business Conferences organized jointly by the Co-operative Union, Wholesale Societies, Co-operative Productive Federation and Officials' Associations.
(5) Week-end schools and special conferences organized by the Guilds or Education Committees.
(6) Local Associations of Co-operative Managers existing in some areas, especially in cities containing several societies, e.g. Glasgow.
(7) The National Associations of Co-operative Officials.
(8) Regular visits of retail society managers and secretaries to wholesale salerooms.
(9) The various Trade Associations of the Co-operative Union (e.g. the Co-operative Milk Trade Association).
(10) In addition to these regular opportunities, the Co-operative Union is always in a position to organize an *ad hoc* committee or conference on any specific matter requiring the co-ordination of policy either in one area or nationally.

Since the purpose of organization of this type is to reach a common mind on the issues under discussion, the meetings must be small. A large meeting is capable of criticism; it is not suited to the task of reaching conclusions. On the other hand, the case is not met by a small executive which legislates for an area; it is essential to this type of discussion that the responsible leaders of all the organizations involved should take part and understand the issues.

Regional discussion of this kind definitely involves organization. It cannot be achieved just by allowing people to meet; the course and nature of the discussion require careful planning. Regard must be had to the size of the meeting and to the knowledge and skill in discussion of the delegates, as well as to the range of subjects which can be covered in the time available. This throws a considerable responsibility upon the executive body for drawing up the agenda and deciding the course of discussion. The executive cannot indeed determine what is to be decided, but the care or otherwise with which the discussion is organized will determine in large measure whether any useful result is attained.

The supreme meeting of the Co-operative Union is the Annual Co-operative Congress to which delegates from societies in all parts of the country are sent. It meets for about four days and the chief business is the discussion of a full printed report which is in the hands of all delegates. The Co-operative Congress has a character of its own. Part of its function is to act as an annual business meeting for the Co-operative Union, and to this extent it provides an opportunity for criticism of the executive of that body. It is more than this, however; since it draws together a large and representative body of co-operators for a period of nearly a week, it is also the major deliberative assembly of the whole movement. Considering the size of the meeting (1,700 delegates), the quality of discussion is undoubtedly high. While it is difficult for Congress to reach conclusions on matters of detailed policy, it provides an opportunity for gauging the feeling of the movement on the points under discussion. Its main value is probably that it fosters a sense of unity and educates the co-operative membership, and especially the leaders of the smaller societies, to understand the major problems which are facing the movement as a whole.

The Sectional Conference is similar to Congress, that is to say, it is primarily a body for criticism; it receives and discusses the printed draft report of the Sectional Board. Some useful discussion may take place, but the general impression is that the ordinary delegate is confused by the mass of material. The smallest regular conference area is the District Association. Conferences are normally held quarterly in each District. A subject is introduced by a speaker and this is followed by discussion. The size of the conference varies, but about 100 delegates seems quite common. These conferences are of

more value than the Sectional Conferences in that they give an opportunity for a more thorough discussion of one particular issue. There is plenty of evidence that this has borne fruit; for example, the rapid development of Mutuality Clubs—now almost universal in the case of dry goods trade in the Midlands and South—was largely the result of discussion at District Association meetings. The chief criticism applicable to both Sectional and District Association conferences is the inadequate time allowed. The meetings are normally held on a Saturday afternoon from 3 p.m. to 4.30 p.m., culminating in tea. Much more useful discussion would result from a two-session conference, since the opportunity of informal conversation over a meal nearly always leads to much more effective formal discussion afterwards.

The Trades and Business Conferences, organized jointly by the national organizations, are of exceptional value. These are *ad hoc* conferences on specific trading matters and are attended by committee members, managers, and other officials. There is always danger in the co-operative movement of a divorce between "ideals" and "business". The Trades and Business Conferences provide a basis for meeting and discussion between members—largely enthusiasts on Co-operation—and the permanent business officials.

The special educational week-end schools and conferences organized by the Guilds or under education departments are of value in training the members in co-operative ideals. They are, however, attended largely by co-operative enthusiasts who are active in the Guilds or concerned with educational activities of the movement, and to a certain extent also by local committee men, but hardly at all by the local trading officials. For this reason they are apt to be out of touch with the practical trading problems of the movement.

There is a remarkable unanimity of opinion among trading officials as to the value of informal meetings at the wholesale societies' salerooms. These, and the meetings of secretaries' and managers' associations, are of great importance in shaping the trading policies of the societies. There is room for an extension of this kind of discussion between members of the full-time staffs as an aid to determining co-operative trading policy. In a democratic movement, however, the formulation and co-ordination of policy cannot be allowed to depend solely upon the permanent officials. For this reason the relation of the staff to those parts of the movement which provide for discussion,

and which also bring in the "lay" leadership, is of great importance. While there is a widespread recognition of the value of the Trades and Business Conferences, the permanent staff often view the other organs of discussion with disfavour. Many maintain that they are just opportunities for the discussion of social ethics and politics, with a good deal of talk about "co-operative ideals" in the abstract, all of which follows a well-worn course, and that those who attend are mere enthusiasts without experience or knowledge of the trading side. This attitude is often justified; but the situation is in part the result as well as the cause of the non-participation of the permanent officials, and of their tendency to concentrate merely on day to day details. It is also due to some extent to the tendency of retail management committees to send committee members rather than officials to all outside activities, which again is often due to the unwillingness of higher executive officials to delegate authority; even in large societies, the manager often adopts the attitude: "If I go off to outside activities, who is to run the shop?" There is no doubt that retail societies suffer seriously in many cases as a result of a lack of imagination in their methods. Their administrative officers might well gain greater vision and wider experience from the opportunity of further contacts outside their own society, both within and outside the co-operative movement.

To conclude, the co-operative movement has a real unity, in spite of the autonomy of local societies. This unity is more obvious, however, in relation to ideas than it is in trading policy. There has grown up, alongside the trading structure, machinery for discussion and consultation, which serves to unify the movement. This is vital to its life but may need modification in relation to particular functions. Critical thought is needed on the relation of the trading to the idealistic side of the national movement, and the parallel relation of the lay leaders to the permanent officials.

CHAPTER 19

SOME GENERAL QUESTIONS OF DEMOCRATIC CONTROL

THE co-operative movement retains free economic exchange in the relation of the consumers and the employees to the undertaking; it does *not* stand for planned consumption or for labour conscription. Consumers express their wants by offering a money price for goods, and societies respond, in the main, to economic demand; the employees bargain with societies in the same way as any group of workers with any employing body, and there is the usual machinery for collective bargaining. There is one significant distinction, however, as compared with competitive capitalism; the consumer may express, by price preferences, his choice between different commodities, but not, in so far as he is loyal to the movement, his choice between different undertakings, for the aim of co-operative organization is to reduce competition.

The institutional control of a co-operative trading concern is in the hands of the members. The members are the customers, who are also the shareholders. The constitution and the methods of distribution of profits are, however, such that there is rarely any possibility, either in retail or in federal societies, of a separation of the shareholders' from the consumers' interest. There have been one or two cases in the past in which retail societies have attracted capital from non-customers by offering high interest rates, and have thus brought into being a group with sectional interests which could, by withdrawing capital, exert undue influence; but experience soon showed the dangers of such a policy, and this situation does not now exist. Voting at general meetings indicates that consumers' interest, showing itself in demand for better service, lower prices, or higher dividend on purchases, takes precedence over any shareholders' interest, which might show itself in a demand for a higher rate of return on capital. On the other hand, the employees, who are invariably members, form a group with a sectional interest among the membership of retail societies. This direct influence of the employees is not possible in the case of federal societies, but an indirect influence may still be exerted.

The test of the democratic character of consumers' co-operation

is whether the immediate controllers of industrial capital—the administrative officials—are sensitive to the interest of those who are affected by the way in which the capital is used; and in particular whether they are sensitive to community interests rather than to the sectional interests of small groups. It is in this latter connection that consumers' control is necessarily more democratic than control by the employees or shareholders.

§ 1. *The Distinctive Features of Co-operative Democracy*

A co-operative retail society is first of all sensitive to the general pressure of public opinion directed upon it as a well-known and socially responsible local institution. This is reinforced by the existence of a large membership usually only vaguely interested in the activities of the society, but possessing potential voting power. There is, however, a small active minority of the membership—usually about 2 per cent. —who focus this general pressure of opinion and who influence the management committee through the constitutional channels of democratic control—that is, through the election of the committee and the members' meeting. This nucleus of keen members who make it their concern to supervise the society's activities, marks off consumers' co-operative undertakings from other forms of democratically controlled industry, in which there is no such voluntary supervising group. In a public or semi-public industrial undertaking—for example, the Post Office or the London Passenger Transport Board—sensitivity results from the general pressure of public opinion, but there is no group of consumers particularly concerned with supervising the service provided. It is from the active nucleus associated with the retail societies that the leaders are drawn who control the federal organizations of the movement, so that this supervision by a self-appointed active nucleus is not peculiar to the retail societies but is the distinguishing feature of the consumers' co-operative movement as a whole. Some of the members are willing to take pains over examining trading accounts and the other routine business of a co-operative society, mainly because they believe that in so doing they are furthering a social purpose beyond themselves or their society.

Even if an active minority of this kind is available, however, it will only control wisely if it is sensitive to a wider public opinion, and if

members outside the active group have some interest in the affairs of the society. This need for an interested membership should not be exaggerated. To suggest that democratic control has failed unless a large percentage of the members are continuously interested in the society, is to suggest something which is not true. Without some interest on the part of the membership as a whole, however, there is always the danger that the active minority may be dominated by a political clique or by sectional interest. This potentially active public opinion depends upon two conditions: that the public for which the society caters should have a measure of group consciousness and civic sense; and that the members should be enabled to understand the nature and problems of their society. The first condition demands that the size and layout of societies should be determined, not only by economic factors, but also by social and geographical groupings; there is, in fact, an optimum size for retail societies in relation to effective democratic supervision, as well as the more familiar optimum which is related to technical, managerial and financial factors.[1] The second condition has important implications for co-operative publicity, since wise publicity will assist members to a better understanding of co-operative enterprise, with consequently more satisfactory democratic supervision.

§ 2. *Control by Consumers*

If co-operative organization is to satisfy its democratic ideals, the membership must have an effective ultimate control of the general trading policy: they must be in a position to check any action which might be detrimental to consumers. It is control of general policy, not of detailed trading methods, which is the crux of the matter. In a democratically controlled co-operative trading undertaking, however, another responsibility falls upon the membership—that of safeguarding the standard of service offered. Under competitive capitalism, economic efficiency is maintained by the competition of rival undertakings. In co-operative enterprise, competition between societies is nearly eliminated; and, while competition between co-

[1] This conception of the optimum size for various functions is borrowed from E. A. G. Robinson's use of the term (cp. *The Structure of Competitive Industry*). There is, however, no normal "democratic supervision optimum" for retail societies as a whole, for the size at which the democratic supervision of a retail society will be most effective is conditioned by its environment, and especially the social environment.

operative societies and capitalist firms is still strong, co-operative loyalty tends to reduce the influence of this competition on the societies. The democratic organization of a co-operative society therefore has a twofold purpose; it must enable the consumers to determine general policy; and it must also make possible a general supervision both of the quality of service offered and of quantitative economic efficiency.

As regards general policy, it must be admitted that control by the members is largely negative; initiation of policy is normally the work of the management. None the less there is a real supervision both in retail and in federal societies of the management's actions. The general meeting of a retail society makes public and brings into relief the significant issues which are before the society at any time. The discussion of these issues has an important psychological influence on the management, which is by this means rendered more keenly aware of the will of the membership. By promoting discussion between the management and the rank and file, the general meeting enhances the solidarity of the society as a whole. The meeting, however, is but a focus; the discussion and criticism would be less significant but for the fact that they are continued in the Guilds and other voluntary organizations and among the general membership. The careful reporting of general meetings in the local pages of the *Wheatsheaf*, and very frequently in the local press, does much to aid the wider participation of the members. In federal societies, including the wholesale societies, the general meeting becomes less a means of expression for a wider membership and more a focus for criticism and an opportunity for the ventilation of the society's affairs. While the effectiveness of this democratic supervision will vary somewhat with the type of society and the nature of the area served, the existing checks are usually adequate to restrain the admininstration from any line of policy seriously detrimental to the interests of the members.

Detailed internal checks on service and efficiency are of course the responsibility of the management; but the ultimate supervision, lest the management themselves become slack, must rest with the membership, for it can rest nowhere else. Supervision of the general standard of service is fairly effective, for members are ready to complain of any inconveniences they have suffered; economic efficiency, however, is a more difficult matter. If prices were always strictly at market level, the dividend would form a useful guide. Societies may,

however, slightly increase some of their prices, an increase difficult to observe, so that they can pay an increased dividend, which is obvious to all, without the necessity for maintaining a high standard of efficiency. It is therefore of great importance, in the interests of efficiency, that there should be a check upon prices. The enforcement of maximum retail prices over as wide a range of goods as possible would be a step towards closer supervision of the efficiency of retail societies. Even then, however, it would be impossible for an uninformed democracy to supervise operating costs adequately. The only permanently satisfactory scheme would be the establishment of a central organization—perhaps a department of the Co-operative Union or the C.W.S.—which would undertake an examination of retail societies' costs and issue a report in a form that would serve as a guide to the membership.[1] There is already an example of this method in use in the electricity industry; regular returns are published centrally giving costs of operation of electricity supply undertakings. With the assistance of a semi-independent, professional organization of this sort, democratic control of efficiency could be far more effective than it is to-day.

The main difficulty in the supervision of federal concerns is one of administration. The close official relations of the member societies to federal undertakings, to which reference has already been made results in fairly continuous general pressure on federal boards for improved efficiency; but the varied and highly technical nature to many of the undertakings may make it difficult for the board of detect inefficiencies in some departments. What is mainly required is a comprehensive and uniform costing system.[2]

§ 3. *The Influence of the Employees*

Mention has already been made of the influence of employees on the affairs of retail societies as a result of their membership of the society. Although they are numerically a small section of the membership, employees are able to exert a disproportionately large influence. They constitute a group with distinct interests of major importance to themselves, and are more aware of the society's activities than the bulk of the membership. They are an organized and self-conscious group in a position to pursue a concerted line of policy on any matter to be

[1] Cf. *The Consumers' Co-operative Movement.*

[2] See Chapter 20.

decided in general meeting, or in the election of the management committee. The voting place for elections to the committee is often the society's shops; the employees are thus reminded of the election and are much more likely to vote solidly than the ordinary members. There are other conditions which reinforce this influence which employees can exert through the constitutional machinery of the society. Trade Union membership is compulsory in most retail societies, and as a result the N.U.D.A.W. is a powerful union.[1] Since the sentiment of the co-operative movement is strongly in favour of Trade Unionism, it is very difficult for management committees to resist a demand which has a trade union backing. In many societies, especially those in which the management committee is apathetic or incompetent, policy is largely in the hands of the permanent officials, who are themselves employees and who are in close relation to the rest of the employees.

In most societies, however, employees do not seriously exploit their power and rarely exert it deliberately. The influence of the employees' vote on the committee is largely negative—that is, the committee is conscious of the potential power of the employees and is cautious about taking any action that would be unpopular among them. A large attendance of employees at general meetings may occur when a specific issue affecting them is under consideration, although these are not usually major matters of policy, but rather questions like the provision of playing fields or pension schemes.

In a few cases employee influence has taken the form of concerted pressure on the committee in relation to matters of management. The employees have combined together to secure the election or defeat of certain individuals and have in this way succeeded in removing an unpopular director or even in changing completely the personnel of the committee in the course of a few months. In one society, two assistants were dismissed as the result of alleged incompetence. The employees, acting with the approval of their trade union, called a special general meeting of the society, and succeeded in passing a resolution demanding their reinstatement. The management committee refused to obey this resolution and the employees succeeded in removing all except the one or two members who were friendly to their point of view. In another society the employees removed the management committee in order to bring about the partial restitution

[1] See p. 353.

of a wage cut to which they objected. There are several other societies, especially in the North of England, in which control is effectively in the hands of the employees. When the influence of the employees predominates in this manner, weaknesses appear which are inseparable from workers' control.[1] There are difficulties about discipline. The managers of the society are in an invidious position when they are appointed by a committee largely controlled by their subordinates. The employees are likely to secure the election of a committee which will be easy-going rather than efficient, and the committee will adopt the same policy in appointing managers. Workers' control is likely to lead to a conservatism of technique, especially if changes are likely to displace labour or inconvenience existing employees.

In the vast majority of societies, however, employees' influence does not show itself in these extreme forms. The management is sensitive to employees' interests to such an extent as to give conditions of employment definitely more favourable than those in similar private employment, together with greater security and less rigid discipline.[2] While these good conditions, improved status and the knowledge that they have a certain voice in the affairs of the society, are likely to result in a greater loyalty on the part of employees, and consequently to improved service, there is no doubt some danger that the management may be so sensitive to pressure by employees as to act in ways to some extent contrary to consumers' interests. Nevertheless, the balance of control between consumers and employees in co-operative retail societies works satisfactorily in the main.

§ 4. *Competition versus Democratic Sanctions*

The actions and policy of the administration of a co-operative undertaking (that is, of the board and higher executive officials) are shaped by a mixture of democratic and economic forces. Although these differ in character, their action is simultaneous, and the actual policy will be a resultant of both. Societies may be considered to be mainly consumer controlled, employee controlled or bureaucratically controlled, according as the machinery is effective in making the board responsive to the wishes of the customer members, or of the employees, or of the permanent officials. Societies are not clearly separable into

[1] For a fuller discussion of these weaknesses, see Beatrice Webb, *My Apprenticeship* (Appendix).

[2] See Chapter 21.

these groups, and there are many borderline cases, but they represent roughly the three situations which can arise. Differences in the incidence of economic forces are mainly due to the differing extent to which members' loyalty is effective. Some societies can rely upon their members' custom unless the goods they sell are markedly inferior to those of their competitors or considerably higher in price; others are subject to the full force of competition, and co-operative loyalty counts but little.

It is important to see how these different situations influence the general trading policies of societies and, in particular, how they affect the maintenance of economic efficiency. Although they are responsible to consumers, co-operative societies are trading undertakings and are concerned with furthering their own trading interests or, to express this more precisely, with perpetuating their own existence and protecting the employment of their officials and workers. In all societies the influence of these trading interests is evident; in societies in which control is bureaucratic or in the hands of the employees, it becomes predominant. Societies in this condition do not differ very markedly from capitalist undertakings. If co-operative loyalty is high, and democratic supervision is weak, slackness and bad service may result, as in the case of a private firm in a monopoly position. Where competition is keen, however, a society will preserve a sensitivity to consumers' wants and may achieve a considerable trading success. This is particularly likely in the case of societies whose control is bureaucratic, as the higher officials are usually anxious to expand the activities of the society which they administer. These societies, whether employee or bureaucratically controlled, will differ in certain significant ways from those in which there is effective consumers' control; they will adopt the usual capitalist methods of sales promotion; they will be sensitive to the short-run desires rather than to the long-run interests of consumers; and, while they may adopt a low-price policy to attract trade, they will also be ready to shelter behind producers' price rings.

Economic efficiency can, as we have seen, be stimulated in two ways, by the force of competition or by the pressure of democratic consumers' control. The co-operative movement is at present in a half-way position. Efficiency is partly maintained by competition with non-co-operative industry; but in so far as co-operative loyalty is effective, this force is weakened, and much then depends on the

effectiveness of democratic supervision. The question of the relative effectiveness of competition and democratic control is important, not merely to the co-operative movement, but also in the whole field of industrial organization at the present time. There is no doubt that competition is in many ways a more effective spur to efficiency than most of the forms of democratic industrial control which have yet been devised. But *laisser-faire* and competition are ultimately an uncertain defence of consumers' interests; for although they may lead to a superficial responsiveness to consumers' demands, competition is wasteful, and there are many ways in which producers can act collectively in ways contrary to consumers' interests. One permanent alternative to competition is effective democratic control by consumers, and if such control makes a reduction of competition possible, considerable economic saving may result. The consumers' co-operative movement has already made headway in this direction; but, if it is to advance, it should depend less and less upon competition with outside traders as a spur to efficiency. Societies must look to developing standards of social responsibility and forms of democratic control which will result in a greater sensitivity to the collective interests of consumers and will maintain efficiency and enterprise independently of competition.

§ 5. *Methods of Appointing Higher Officials*

The method of appointing committees and higher officials is a matter of great importance, not only in the co-operative movement, but also in the whole of industrial and social life. There are three main methods of choosing a person to fill a position: election by a large constituency, selection by a small board or committee, and competitive examination. The last, which is of great importance in the Civil Service, is not employed in the higher ranks of the co-operative movement. Election is the usual method of choosing a person when it is desired that he should be sensitive to the will of a larger group. Selection by a committee, however, is usually employed to obtain officials of special business ability or technical qualifications. In most organizations, it is the usual practice for elected posts to be unpaid, or remunerated on so low a scale that personal monetary gain as the primary incentive is excluded; fully paid posts in which the return is sufficient to provide a real incentive are normally filled by selection.

But there are exceptions to this rule, several of which occur within the co-operative movement, the most important being the election of members of the boards of the wholesale societies. It may be held that the purpose of these boards should be to serve as a higher control sensitive to the interests of the member societies; that directors should not be selected mainly for executive business ability, payment being necessitated by the volume of work which they have to perform. If this interpretation of their function is correct, and the method of appointment certainly suggests it, then the nature of the work performed by the boards requires adjustment in the light of it.

The most important official in a retail society is the managing secretary or chief executive officer. Since high business and technical qualifications are required, the natural method of appointment is that of selection by the management committee, and this, in fact, is the method adopted in most societies. In a few societies, however, the managing secretary is elected by the vote of the whole membership, on the grounds, apparently, that his actions are of such central importance to the society that he should be subject to more direct democratic control. In practice, even in these cases, the recommendation of the committee is almost invariably accepted, so that this method of appointment does not influence the choice of the managing secretary to any great extent. One result of this method of appointment is, however, the reverse of that intended; it gives to the managing secretary almost complete security of tenure and greatly strengthens his position as against the committee, which can only remove him by securing a vote in the general meeting. This is difficult to obtain in cases of minor inefficiency, and even in the event of serious incompetence or corruption, the committee may well be deterred by the publicity involved from placing the facts before the general meeting. In one society with this method of appointment, a completely incompetent secretary was sheltered by the management committee for some years, until a major crisis ensued; had he been removable by the committee, there is no doubt that he would have "retired" much earlier on some pretext. The election of the general secretary of a retail society by the members seems to be undesirable both as a method of choosing the candidate of the highest ability and from the point of view of effective democratic control.

§ 6. *The Democratic Control of Single- and Multi-purpose Federal Undertakings*

An important question of co-operative organization is whether the processes of production are best performed by a single organization controlled by a democratic board, administering many departments through sub-committees, or by a series of specialist concerns, each controlled by an *ad hoc* board. So far, modern co-operative development has been along the first line, the wholesale societies following in this the example of the retail societies. This is in line with another kind of industrial activity under democratic control, namely municipal enterprise. There is some ground for believing that the wholesale societies are handicapped by their heterogeneous lines of business; that in productive industry the specialist concern, whether capitalist undertaking or productive society, is at an advantage by reason of its specialization. The present trend in public control is also in the direction of the *ad hoc* public service corporation. From the standpoint of democratic control, these two forms of organizations involve quite different methods. A single multi-purpose board may be the subject of direct election and criticism by a fairly large constituency. This method cannot be applied to a series of *ad hoc* boards, for the electorate cannot keep up a continuous and active interest in all of them simultaneously. In these circumstances, democratic control must be indirect, direct control being exercised by directors who are themselves thrown up by and responsible to the directly elected democratic organs, in this case the retail societies. Just as interlocking directorates in capitalist trade result in the formation of a director class, reacting in certain ways to changes in the industrial and social situation, so it is possible to envisage a co-operative director class; but whereas the capitalist director habitually watches the interests of shareholders, the co-operative director should be sensitive to the interests of consumers. In spite of difficulties of direct democratic control the single national society for centralized production has very real merits. In addition to technical gains, such as spreading of overheads and of the costs of service departments, there are two major points in its favour. First, the size and importance of the enterprise focuses attention upon it and thus makes for more effective, even if less direct democratic supervision; secondly, more systematic planning of co-operative production and of the direction of investment becomes possible.

PART IV

PROBLEMS OF CO-OPERATIVE ENTERPRISE

Chapter 20

MANAGEMENT

It may be well to start this chapter with a definition of terms.[1] The task of most company directors is higher control, as distinct from management; the distinction is roughly that between the determination of ends, and the subsidiary strategy and continuous supervision necessary to accomplish those ends. "Administration" is used to cover the tasks of both direction and at least higher management—tasks often jointly performed in co-operative societies by one person or body of persons. The primary functions of administration are threefold: organizing, staffing and controlling. First must be determined the plan of departments and ranks; secondly, men must be appointed to fill these ranks; thirdly, orders must be given to subordinates. Management may be conveniently divided into lower and higher management, the division occurring at the level of the plant manager or manager of a distributive department. Organization below this point—that is, within a productive plant or distributive department —is determined largely by the nature of the process which is being undertaken and follows much the same lines in capitalist, co-operative, and municipal or state-operated industry. Higher management, however, will vary with the method of control, size and purpose of the undertaking. It is with higher management that this chapter is mainly concerned. The problems of management, and especially the organization of higher management, will differ considerably in the three main types of consumers' societies—retail, local federal and wholesale. A retail society has to organize consumers locally and provide them with the goods and services which they need. A local federal society is formed to undertake a single line of production, distribution or retail service throughout the area of several retail societies. The national wholesale societies endeavour to undertake all lines of centralized production distribution and service for their national areas. In reviewing the management of different societies, it is important to bear in mind these differences of purpose and scope.

[1] These definitions do not correspond exactly to those used by other writers—indeed, no uniform terminology exists. Cp. Sheldon, *Philosophy of Management*; Florence, *Logic of Industrial Organization*.

§ 1. *Retail Societies*

The higher management of retail societies has already been described.[1] There are two normal types—the "diarchical" and the "monarchical." In the former, neither of the two officials performs effectively the function of general administration. The latter type, in which there is a single managing secretary, with a full range of departmental managers, is becoming more common, especially in the larger societies. Where this form of management exists, however, there are considerable differences in the status of the managing secretary. In some cases he is minute clerk and society secretary, responsible for correspondence, for the secretarial work attaching to board meetings, and perhaps also for the accountancy department; in others he is much more than this, and his position is closer to that of managing director, for by delegating secretarial and accountancy management, he is able to act as administrative head of the society as a whole.

The general administration of any large organization involves two co-ordinating functions—technical and economic. By technical co-ordination is meant all those internal adjustments between different departments which are necessary to ensure smooth running. This type of co-ordination can be performed by a management committee with sub-committees or, much better, by a meeting of departmental managers, such as occurs regularly in some societies. Economic co-ordination is a much more important function of administration. It involves directing investment and development policy, supervising the range of services offered in all parts of the area and the relative progress of different departments in relation to the needs of the district—in fact, the economic balance of the whole concern. The final responsibility for policy must lie with the management committee or board, but it is not possible for the board to perform this function adequately without a full-time administrator who can keep in touch with all sides of the society's trading activities and can marshal the facts. One difficulty of the sub-committee system is that the members tend to become specialists and, in consequence, enthusiasts, and are apt to believe that the way to success for the society lies through the departments for which they are responsible. This results in a sectionalization of the board, so that the balance, or

[1] See Chapter 4.

lack of balance, in the development of the society depends very much on the strength of personality of members of the various sub-committees. Many societies for this reason give an impression of haphazard development; and it is probably not accidental that some of the most progressive societies are those in which there is a single executive head, who has both the powers and the ability to exert administrative control over the whole society.

If a retail society is to act effectively as a retailing organization providing a full range of consumers' services and catering adequately for its area, then two conditions are necessary. First, there must be a single executive head who is able to act primarily as an administrator. In many societies the managing secretary is approximately in this position; but if this is to work satisfactorily, he must be able to delegate a great part of the routine and secretarial work to subordinates. He may then give his attention to general administration and to what is happening outside the confines of the society. He should have an adequate central staff and, in the larger societies, one or two personal assistants. Departmental managers should be directly responsible to him and not to their sub-committees. The second condition, if retail societies are to undertake effectively their wide range of retail services, is the existence of an adequate specialist staff and of specialist departments. The inadequacy of these arrangements is noticeable throughout the whole of the co-operative movement; and it presupposes an impossible range of attainments on the part of managers. For example, some of the largest retail societies have no publicity departments; window dressing is left to the unguided enthusiasm of the assistants at each branch; there is no attempt at market research. The main functions which should be in specialist hands include the following: personnel management and vocational education, especially training of assistants in salesmanship; market (commodity and service) research; costing; publicity, including window dressing. In the smaller societies these services could be performed by the wholesale societies, if the latter were adequately equipped. In the larger retail societies, a special official should be responsible for each of these functions to supplement whatever services the wholesale societies might offer.

The experience of local federal societies throws some light on the management of retail societies, for a local federal society corresponds closely to a single productive or distributive department which happens to be shared by several retail societies. In consequence,

there is practically no higher managerial structure: the management culminates in a general manager, who is in much the same position as the manager of a productive plant or distributive department in a retail society. A comparison between federal societies and the corresponding trading departments of retail societies affords some evidence of the advantages and disadvantages of specialization from the standpoint of management. Local federal societies usually undertake lines of trade requiring a relatively high degree of technical skill, and in general are better equipped than retail societies with staff qualified in the technicalities of their own trade. This is partly due to their larger scale of operation, but is also due to the fact of specialization. There is no logical reason why a trading department of a retail society should not have as satisfactory a staff as a local federal society on the same scale. It is merely that the general manager of a federal society has usually more freedom and independence, and more influence with the board, than the departmental manager of a retail society, whose demands for staff have to compete with similar demands of many other departmental managers. On the other hand, some local federal societies may be weak in services such as publicity which, in a retail society, may be in the hands of a special department, but in a local federal society will almost certainly be the responsibility of the general manager.

§ 2. *Wholesale Societies*

The wholesale societies represent an extent of lateral integration unparalleled in non-co-operative trade. This is illustrated by the list of industries controlled by the C.W.S.[1] In consequence the problems of control and management are peculiarly complex—some would say insoluble within a single unit. Yet, if the co-operative movement is to reap to the full the advantages of a rational and comprehensive plan of production and distribution, a single organization, capable of marshalling the resources of the movement nationally, is essential. Further, in an industrial setting increasingly dominated by very large combines organized in the interests of producers, the consumers' movement requires the backing, especially financial, of an organization of comparable size. For these reasons the existence of a single national wholesale society must be welcomed. The problem is to devise an administrative and managerial system within a large, multi-industry

[1] See Chapter 7, p. 162.

concern which will allow of as high a standard of internal efficiency as would be possible in a series of single-industry undertakings.

The administrative problem of a large multi-industry undertaking like the national wholesale societies falls into the following divisions: (1) Multi-industry administration. (2) Multi-plant administration for each industry. (3) Single plant management. It is with the first two that we are chiefly concerned.

An important consequence of the integration of several industries is to increase the complexity of the administrative organization. This organization must carry two sets of functions. First there are those due simply to the exercise of higher control—functions which would have to be performed equally by the higher administration of either a single or multi-industry undertaking. These include the control of labour conditions, the organization of service departments and—in the case of a co-operative society—of democratic control, as well as relating the society to the outside world. Secondly, there are those functions required to co-ordinate the activities of the undertaking in each line of production or distribution—functions peculiar to multi-industry concerns. These include laying down of lines of production for each group of plants, making the best collective use of the various factories and service departments operated by the undertaking, and direction of new capital investment.

The wholesale societies are predominant in the economy of the co-operative movement. Hence their decisions are of major importance in shaping the policy of the movement in production and wholesaling, and in determining the use of co-operative financial resources. The managerial systems are very similar in the C.W.S. and the S.C.W.S. For the sake of concreteness, the following discussion refers to the organization of the C.W.S., but most of the generalizations are also applicable to the S.C.W.S.

The machinery of administration consists of the board and its sub-committees, and the centralized departments. The present board structure obviously had its origin in a much smaller society which was an easily manageable unit and in which the board could make all the major decisions. The committees and later the sub-committees were formed to supervise specific departments and to advise the board, but were given little executive responsibility, the power of making the major decisions being retained by the full board. Routine management has, indeed, been delegated in most cases to production and

departmental managers, but an examination of the matters upon which a manager has to obtain the prior sanction of the board indicates that the directors of the C.W.S. concern themselves not only with direction but also with higher management.[1] The managerial plan, in consequence, depends not only upon the relationships between officials, but also upon that between the committees and sub-committees of the board. Each production or departmental manager is responsible to one of the six permanent sub-committees. He meets with them regularly and lays before them his reports and a list of proposals for which he desires board sanction. These are passed on, with the advice of the sub-committee, to the committee and thence to the full board for final sanction, the advice of the sub-committee being almost always accepted. The main process of multi-industrial co-ordination must therefore emerge from the activities of the sub-committees, the committees and the board. There is only one standing co-ordinating committee with representatives from the other committees, namely, the Wages Committee. This controls the wage rates throughout the society, negotiates with trade unions, and has a well-equipped executive known as the Wages and Staff Office. Other *ad hoc* co-ordinating committees are appointed from time to time to deal with special subjects and there is a constant interchange of views between the various committees.

The progress of the C.W.S. in a multitude of different industries is by its very success creating new demands upon the higher control exercised by the committee and board system. With the widening range of industrial production the pressure of work upon the permanent sub-committees is increasing; while the amount of detailed business converging upon the full board may prevent concentration upon general policy. With new problems continually arising, it would be wasted effort for committees and sub-committees, as well as the board, to make decisions on details that should be the responsibility of the administrative staff. Managers possess rights of action on their own responsibility in routine matters and in an emergency; but it is still a question whether the procedure of report to sub-committees and the full board does not seriously slow down the tempo of the Society's activity.

The administration of many continually growing industries requires something more than a structure of committees to direct and control

[1] See Chapter 7, p. 143.

the various activities. It demands an expert staff able to adjust itself to the changing tasks of central management. These tasks are informative, executive and supervisory, and include specialized services centrally provided. If directors and higher managers are to exercise their control efficiently they must delegate the executive and supervisory tasks of lower management, and they will need an increasing volume of staff work providing expert information on which to base policy. It is the common experience of businesses which have grown fast and integrated a variety of industries that it is difficult to adjust the organization of management functions built for a simpler purpose to the magnitude and complexities of their new task. Often enough they do not realize sufficiently the urgency of this need for adjustment. To this experience the C.W.S. is no exception.

The need for such adjustment is particularly apparent in the function of collecting information. The most important device for getting information about the progress of a growing concern is a uniform costing and control system. If the directors are to delegate management to a further extent they must be in a position to keep an ultimate check on the efficiency of the various industries, plants, and departments of plants. The C.W.S. has a Costing Department in Manchester which is charged with the inception and supervision of standard costing systems. The officials are familiar with the principles of budgeting and statistical control. But the number, size and variety of C.W.S. plants probably demand a larger staff if the essential work of comparing achievement with budgeted plan is to be regularly performed.

If growth of the organization is to be well balanced and well planned, information must be obtained also on certain facts and events outside that organization. Market research must be undertaken into the potential demands of old and new customers, and a forecast made of the likely course of economic conditions underlying the various industries which the Society has entered. At present the C.W.S. relies for this information, so necessary as the basis of an intelligent general policy, upon regular and special reports from the administrative, financial and trading departments and from the individual factories, supplemented more recently by the services of the Information Bureau established as a small section of the Publicity Department. Again, however, the question arises of the sufficiency of these methods under modern conditions.

In an age of rapid industrial progress, process research into the latest technical developments must be entrusted to a specialized staff, as also the complementary commodity research into the quality of the resulting product—including a follow up of complaints received from customers. The C.W.S. is inclined to expect each local manager to adjust his plant to the latest technical developments; centrally it has a relatively small though well-equipped laboratory, but one likely to be occupied with routine rather than development research.

Besides the task of gathering information the management of a growing multi-industry concern requires specialized executive departments and specialized services. The existing executive departments —Secretarial and Accounting—of the C.W.S. are fully organized, but new developments require an executive department responsible for administering the investment policy. At present this function is performed in part by the General Secretary, the Chief Accountant and the General Manager of the Bank. A centralized staff planning ahead what industries to develop and what plant to lay down in view of market conditions, present and future, is now found essential in progressive businesses controlling a variety of lines and processes. Such an executive planning department would of course remain in close touch with the board and especially with the directors particularly interested in investment and finance.

Many of the special service departments of the C.W.S. are excellently equipped. Some of these—notably engineering and architects—are used not only to provide services within the society, but also as external service departments for retail societies, and are adequately staffed with a trained personnel. There is no reason why advertising, which is centralized for the whole of the C.W.S. in the Publicity Department, should not in the same way provide a comprehensive advertising and publicity service for the whole movement. Finally, the Wages and Staff Department keeps staff records and is responsible for lectures to staff; but personnel management in its modern sense is lacking.

In many of the main lines of industrial production undertaken by the wholesale societies there will be several plants in the same industry. It is necessary therefore to have some form of administration above the plant managers for each single industry. The functions of multi-plant management in a single industry include specialization of production between plants, price-fixing and the control of production

schedules. There are also some functions which may be performed either by the central multi-industrial or by the single-industrial management—the employment and dismissal of labour, transport, and the purchasing of supplies.[1]

The normal managerial plan for C.W.S. plants in each single industry is that of group control, whereby the local plant managers are responsible to a group manager for each industry. The rate at which this form of organization is being adopted is delayed by the usual co-operative disinclination to displace existing staff, but there is no doubt that it will be the standard for the future. Major policy—specialization, design, price, etc.—is frequently discussed in managers' conferences before being submitted to the board. The main weakness is the lack of functionally specialized staff in the plants. Both factory and group managers are responsible for production in all its phases, sales, costing and office organization. They are too much occupied with routine matters and are not free to apply their energies to higher control and to the discovery of weaknesses. They have to make decisions without staff to prepare the facts which should guide them in making those decisions. They lack the staff to control the execution of their decisions. Experts, at least in production engineering, production schedules, costing, piece rates and personnel management, are needed for each factory or for each closely linked group of factories. Both group and works managers are unnecessarily burdened with duties which the central departments at Manchester ought to perform for them. At present, accounting is the only responsibility of which they are relieved, as factory accounting is directly under the control of the Accountant's Department at headquarters. But even here there might be more central control of budgeting not only to relieve the plant managers of responsibility, but also to provide an independent check on costs and to allow of an efficient higher control.

[1] In the C.W.S. the appointment of Class A employees requires the sanction of the board and is, in effect, a function of the central management; Class B employees, on the other hand, may be engaged by the plant or group managers, but conditions of employment are strictly regulated centrally. Transport, both road and rail, is controlled through a central traffic department. The purchasing of raw materials is usually in the hands of the group manager, although joint buying between industrial groups is encouraged. (Official Instruction No. 78: "Wherever possible, managers must purchase their requirements jointly, and they shall obtain the same from our own works and departments whenever it is possible to do so.")

§ 3. *Staffing and Personnel*

The occupational background of retail society directors has already been discussed. About half of the directors of the wholesale societies have been drawn from the directors of retail societies and have therefore had similar kinds of experience. The other half have been managing secretaries of retail societies.[1] Co-operative directors usually lack technical knowledge and are almost invariably without previous production experience. In this they differ from the directors of smaller capitalist undertakings, though perhaps not markedly from those of large joint stock companies. The lack of technical knowledge probably does not handicap boards in their function of direction, but it is a weakness when, as so frequently happens in co-operative enterprise, they also try to undertake management.

The final responsibility for appointment to the higher ranks of management lies, in every case, with the board of the appointing society. The board, however, does not rely on its unaided judgment in making appointments, especially appointments requiring high technical qualifications. In the wholesale societies, the normal road to the post of production manager is by the way of an assistant managership. There is a growing tendency to appoint fairly young and able men as assistant managers with the strong probability that they will succeed their respective managers. The choice of the assistant manager is thus of considerable importance and usually this choice is made chiefly on the advice of the manager. In the increasing number of factories organized under the "group management" system, the plant managers are usually appointed on the advice of the group manager; when the group managership falls vacant, it is usually filled by the most capable of the plant managers. The group manager or the production manager is normally a good judge of the competence and suitability of candidates and will sponsor the appointment of a capable man to be his subordinate. There is the danger, however, common to all organizations, that the manager—especially when he is not himself of first-class ability—will cause the appointment of a man to work under him who is a good subordinate, possibly a "yes man", in preference to one who is his intellectual and professional superior.

In retail societies, departmental managers or production managers

[1] See Chapter 7, p. 152.

are usually appointed on the advice of the managing secretary. The appropriate sub-committee prepares a short list of candidates, who are then interviewed by the full board. The key appointment in a retail society is that of managing secretary. In making this appointment, the board is less able to rely on the advice of its permanent officials than in other appointments. In some cases appointments are made from within, but usually many of the candidates will be managing secretaries or assistant managing secretaries in other societies. In these cases, the board will scrutinize the trading results of the societies of which an official is a candidate, and will probably visit some of these societies. This procedure is facilitated by the solidarity of the movement and the ready exchange of information between societies. There is, of course, a danger that a management committee may push the claims of their managing secretary if they wish to be rid of him, or refrain if they are loath to lose him; the appointing committee is, however, likely to have a considerable knowledge of the reputation for efficiency of different societies. The qualifications and ability to be looked for in a managing secretary are sufficiently similar from one society to another to make this method of appointment fairly satisfactory.

In the selection of managers, the background and experience of candidates is, of course, of great importance. In co-operative societies, the selectors are guided by two principles which are peculiar to the movement. First, they tend to select candidates of working-class origin, who have themselves started as routine workers. Secondly, there is a marked preference for candidates from within the movement. These principles are not always observed and there is probably an increasing tendency to depart from them; they do, however, influence the personnel of co-operative management.

Production managers are recruited from two sources—from the ranks of factory workers or from the office or sales staff. The ex-factory workers are skilled men who have worked themselves up to positions of foremen or supervisors and who have been made managers. Many of the managers so recruited are well fitted for their posts. Some of them lack the polish and manners which are expected of the modern factory manager and so may give an unfavourable impression at first sight; but they often possess managerial ability for organizing production equal or superior to that possessed by many who are drawn from a different class. The experience of industrial organizations

generally is that managers who have risen from the ranks of the workers are sometimes disappointing. They are craftsmen, interested primarily in the quality of the raw material and turning out a perfect product as the result of skill on the part of the workers. They ignore or underrate modern production methods and will even advocate a return to old-fashioned methods. They are sometimes at a loss when it comes to matters of finance and accounting. Their commercial abilities on the buying and selling side have not been developed, and modern ideas about service to consumers and public relations are foreign to them. The result is often conservatism in technique, domination by the mental outlook of the craftsman, and a lack of adaptation to the needs of consumers. This is largely unnecessary; the high quality of the more successful co-operative managers demonstrates that the movement possesses ample potential ability, granted proper selection and training.

The second group of production managers are those who started either as office boys and were promoted through the office to the post of chief clerk, or who started as salesmen. While there are exceptions, it is more difficult for a promoted clerk or salesman than for a promoted worker to become an efficient production manager. He will organize the office and commercial side well and may make a profit as the result of clever buying and selling. If he has the backing of an efficient technical assistant, who can act as assistant manager, he may be very successful. Without such backing, technical efficiency is unlikely to be achieved; and if he is at a loss technically, his authority in the factory will be weak.

Retail departmental managers are, in the main, technicians rather than administrators. They are responsible for buying and for planning the trade of their department. They must, therefore, have a wide knowledge of commodities and of market conditions for the lines of goods in which they deal. A co-operative departmental manager can, in his buying, take advantage of the support the C.W.S. offers. He should therefore be able to give relatively more attention to salesmanship, but this opportunity is not always seized. Departmental managers are frequently promoted from among the branch managers. In the large societies, in which the volume of departmental trade is considerable, it is usual for vacancies to be advertised and for managers to be appointed from among departmental managers in other societies or, occasionally, from outside the movement.

In societies in which there is dual control with co-equal manager

and secretary, the general manager will almost certainly be recruited from among the departmental managers and the secretary from the office—although in neither case necessarily from within the society. The administration of a retail society under a single managing secretary is, however, more usual. This official occupies a pivotal position in his retail society and one that does not correspond to any post outside the movement. He must be able to co-ordinate the activities of the society as a whole, to supervise the standards of departmental efficiency, to advise the board on investment policy, to be conversant with legal requirements, to organize democratic control and committee work, and to be responsible for the relationship of the society to other organizations. When managing secretaries are promoted from the trading side, there is a tendency to appoint those with grocery experience. This policy is a natural consequence of the position of grocery as the largest and senior activity; but groceries require less conscious salesmanship than "dry goods", and managers who have proved themselves successful in the more difficult art of selling furniture or drapery are perhaps likely to possess more of the initiative and originality required in a managing secretary. Although some of the most capable managing secretaries have been appointed from the trading side, an office training gives perhaps the best inter-departmental experience. The danger here is that a person may be an excellent clerk for board meetings and secretarial work, but may fail to act as a real administrative head of the society as a whole. In the larger societies, the managing secretary is not appointed usually from within the society, but by promotion from a similar position in a smaller society. This procedure is like that existing in local government service. It means that a managing secretary has before him the possibility of promotion up to the largest retail societies. It leads to a circulation of officials among retail societies and a consequent exchange of experience between different societies and different parts of the country.

Co-operative managers are, as has been stated, usually appointed from within; often from within the department, usually from within the society—with the exception of retail society managing-secretaries; almost invariably from within the movement. Sometimes outsiders are appointed, but usually only for a new line of business, as, for example, when the C.W.S. started canister and steel furniture manufacture, or when retail societies have entered the pharmacy trade. The principle of giving preference to existing employees is sound, for if the chances of promotion are remote, they cannot be expected to

show the same keenness. On the other hand, it is necessary that fresh blood should be brought in from outside. This provides an important check on efficiency and obviates the danger of stereotyping technique.

It is interesting to note the contrast between those posts which are peculiar to the co-operative movement and those common to co-operative and non-co-operative industry. In the case of retail managing secretaries, the movement has been able to develop a body of relevant professional experience and to raise sufficient candidates from within. This has been still more noticeable in the case of agricultural requisite societies. Progress at first was slow and there were many failures owing to lack of managerial ability. These societies now exist in sufficient numbers and are sufficiently well established to train their own managing secretaries within the movement, and this has been an important factor in their recent progress. In contrast to these purely co-operative posts, production managers and managers of distributive departments require technical skill which is common to co-operative and non-co-operative industry, and there has been less success in developing this kind of ability from within. It is naturally chiefly in those departments which are expanding rapidly—e.g. pharmacy—that managers are appointed from outside. While the importing of fresh blood is largely the result of expansion, it may also be true that the progress seen in these departments is partly the result of the influx of new ideas. There are certainly signs of conservatism in method and slowing down of progress in the old-established departments whose managers are almost entirely recruited from within the movement.

§ 4. *Training of Managers*

The vocational training of co-operative employees who are, or are likely to become, of managerial rank falls into three main categories: general evening-class training shared by most of the junior employees; training for the specialist staff; continuous training of existing managers. Alongside these forms of training in vocational proficiency goes the training of the staff in co-operative principles.

Both retail and wholesale societies provide the usual facilities for employees to take part in evening or part-time day classes organized by the Local Education Authority. They are, indeed, model employers

in relation to such schemes, but while this educational work, discussed more fully in Chapter 13, is important, it goes only a very little way towards full training for management.

On the production side, what the co-operative movement needs above everything is a staff of competent engineers who can raise the technical level of the plants above those of private traders. Engineering knowledge nowadays is so vast and so specialized that nothing short of a full-time training in engineering at a University or Technical College, combined with practical experience, will give to the movement the kind of experts it needs. If the co-operative movement already enjoyed the reputation of being among the most progressive and technically efficient business concerns in the country, the problem could be solved by picking out promising young manual workers and making it possible for them to attend courses in a good engineering faculty at a University or full-time Technical College. But the granting of a full-time University training, under present circumstances, has usually led to the employees in question leaving co-operative service to seek employment in more progressive capitalist undertakings. To attract highly qualified men in the open market is difficult for similar reasons. The technical reputation of co-operative undertakings among university-trained engineers is, perhaps undeservedly, not very high, and it is therefore difficult to obtain the best men. Further, it is most unlikely that the co-operative movement at the present time would take action which would close the channels of higher promotion to their own employees. If the movement is to create a body of technically competent managers, certain steps are necessary:

(1) Workers in shops and offices ought to be admitted to open competitive examinations for first appointments, to prevent favouritism.

(2) Successful candidates who also show signs of leadership and business ability ought to be classed as trainees and given a chance of working in every department of the factory, on both the productive and clerical sides.

(3) Further, those trainees who had undergone this internal training successfully should have the opportunity of training at a college of University status. This would be assisted by a reorganization of co-operative education, but it must be emphasized that technical education cannot be undertaken by co-operative institutions alone.

(4) Measures should be adopted to raise the status of these posts, and the general level of co-operative practice, in order to attract and to retain the best men.

A progressive industrial undertaking must not only make sure that the abilities of managers at the time of appointment are high; it must also give them every chance of continuously increasing their professional knowledge and ability. The only continuous training C.W.S. managers get at the present time can be described in a few words. There are managers' meetings, on a general and an industrial basis, at the main centres—Manchester, Newcastle and London. Managers receive trade journals which they are supposed to study. Representatives of engineering firms visit them and inform them of the latest developments. Managers have a chance of visiting other plants within the movement, but full advantage is not taken of this last opportunity.

These opportunities for continuous training are insufficient to keep managers abreast of the times. They should be encouraged to visit as many outside factories in their own trade as they can gain access to and, of course, all efficient co-operative works in their own and allied trades. They ought to be given an opportunity of seeing foreign plants—especially Scandinavian, German and American—and should be allowed to visit industries fairs both at home and abroad. In particular, whenever a new plant is to be erected or an old plant to be reconditioned, the manager should have the opportunity to study rationalized factories at home and abroad. There is probably room for a development of management research groups composed of production managers of allied co-operative factories—wholesale, local federal and retail—accompanied by visits to plants followed by discussion and criticism. A certain amount of sharing of experience takes place informally and through the various associations, but it could be greatly extended. Perhaps the most important single step for the continuous training of managers would be for the wholesale societies, perhaps jointly with the Co-operative Union, to develop advisory departments on subjects such as factory construction, plant layout and internal transportation, power and fuel economy, personnel management and mechanical equipment, whose experts would visit factories for the continuous training of managers. At present the C.W.S. employs an official who performs this function in the case of office organization, and this plan of educating managers by expert practical advice on their own problems should certainly be extended.

Training for the commercial man and the administrator presents greater difficulties since the technique of such training is less developed. It is not possible to lay down any single method of training, although

fuller advantage should be taken of the opportunities offered by University Departments of Economics and Commerce. What is important, however, is that there should be room for experiment and that the movement should adopt a variety of methods of recruiting. While a number of the commercial and administrative managers of the wholesale societies have been appointed from outside, those who have been promoted from within the society are usually drawn from the clerical staff. For their training they have the opportunity of attending the usual evening classes in business practice and of taking courses in co-operative principles at the Co-operative College or elsewhere. In the retail societies, the administrative staff are usually drawn from the check or accountants' office, and have the same opportunity of formal training. More important than formal training is the experience obtained in the course of the work. A weakness of the co-operative movement is a lack of subordinate posts involving responsibility and demanding initiative and wide experience. This results from the unwillingness of controlling committees to provide adequate assistance and of managers to delegate responsibility to subordinates. When an employee who has long occupied a subordinate position is promoted to a post of authority, he is apt to pursue hide-bound and stereotyped methods. A contrast to the usual practice is provided by one particularly progressive retail society. The managing secretary of this society, being willing to delegate authority, has appointed several young personal assistants of initiative who are in a position to obtain a wide experience of the work of the society. This plan has allowed the managing secretary to give his attention to major questions of policy and to pursue a better co-ordinated and more imaginative trading policy than usual; it has kept within the service of the society employees of unusual ability; and it has given the assistants practical training in administration far superior to that usually obtained by the office staff. It is a plan that might well be followed both in the retail and in the wholesale societies.

While it is impossible to lay down any uniform system of training, there are certain methods which might be adopted experimentally. A trainee scheme might be instituted to train employees in administration. A certain number might be recruited from Universities, and given the kind of "graduate trainee" experience which is becoming common in large firms. As an alternative to or in conjunction with such a scheme, an opportunity might be given to promising employees to

have a suitable University training in commerce or industrial administration; but this raises the difficulties already mentioned of employees leaving the movement after their period of training. Finally, one of the most serious weaknesses in the recruitment of administrative staff is that the majority of employees are engaged at elementary school leaving age, and are therefore, unless they are exceptional persons, not well qualified to profit by higher technical training.

§ 5. *Incentives*

In industry at the present time the importance of direct financia incentives varies considerably. In many capitalist undertakings there is a direct financial incentive to higher management in the payment of a bonus on results or, more frequently, as a result of the fact that the higher executive officers have a considerable shareholding in the firm, and therefore a share in its profits. In the large public companies, however, there is an increasing tendency for managerial posts to be occupied by salaried officials whose incomes are not immediately dependent upon the results of their activities and do not vary with the success of the firm.

Among non-financial incentives to productive activity the co-operative movement has one which is peculiar to itself, namely, the sense of social purpose. The manager may be willing to put forth greater energy and initiative because he believes in the purposes of the movement and has a sense of solidarity with it. It is extremely hard to assess the strength of this incentive, and it varies considerably as between different individuals. There is no doubt that it is far stronger among the lay leaders of the movement than among the technical experts and managers. There are, however, a number of officials who, although not perhaps moved by enthusiasm for the cause of Co-operation, are nevertheless happier to give their services to a socially responsible organization than to use their skill to increase the profits of proprietors.

The most important non-financial incentive is perhaps professional pride. This is common both to co-operative and non-co-operative trade. It arises primarily from the inherent interest of industrial management and from the satisfaction to be obtained in taking responsibility and in solving the problems which arise. In the words of the manager of a productive department of a co-operative society: "I

have not met with any recompense for my inventiveness and special efforts. I do not want it, but only want to prove the soundness of my own ideas. What depresses me most is when good technical proposals are turned down by the directors." This motive is greatly stimulated by the prestige of serving a concern which commands the admiration of the community because of its technical, commercial, or social progressiveness. There are many large capitalist undertakings in which this type of loyalty to the firm and pride in its achievements is a powerful incentive.

The opportunity of promotion is a very common incentive among officials in the lower ranks of management. This is partly financial and partly non-financial. Many are anxious to obtain promotion in order to obtain a wider sphere of influence and activity, while increases in salary may be a secondary consideration. With others it is the other way round, and the financial is stronger than the non-financial motive.

The co-operative movement has always been averse from relying on financial incentives to any large extent. Workers are sometimes paid by piece rates and canvassers by commission, but those of managerial rank receive a fixed salary without bonuses or participation in trading surplus, except that salaries of retail departmental managers are fixed, by collective agreement, on a scale depending on the turnover of their departments, so that retail managers have a direct financial incentive to increase the trade of their departments. There is no inherent reason why, in the co-operative form of organization, financial incentives should not be used more widely; for example, the payment of a bonus to production managers dependent upon the saving of costs in their works would in no way conflict with co-operative principles. If the movement is to avoid reliance on direct financial incentives, then it can only maintain competitive efficiency if its non-financial incentives are correspondingly more powerful than they are in capitalist trade. The one non-financial incentive that is peculiarly co-operative, the sense of social service, has at present a rather limited effectiveness. As a general rule the standard of co-operative technique is not such as greatly to stimulate professional pride. Managers who come from outside the movement are frequently dissatisfied with the lack of technical progressiveness. To this must be added the more rigid control over managerial activities by committees and, what is still more important, the very limited responsibilities given to subor-

dinate managers together with the extent to which they are hedged with regulations. Thus instead of non-financial incentives being more effective in the co-operative movement, as might have been expected, they may actually be less.

In an organization which does not depend upon direct financial incentives, the possibility of promotion as a reward for efficient service is of particular importance, and here again co-operative policy is not as satisfactory as it might be.[1] There is too much promotion by seniority instead of for efficiency, and when promotion is made on the basis of efficiency, it is generally for routine ability rather than for initiative. Imagination and inventiveness count for less than ability to fill a place within a predetermined system. The fact that salaries for higher posts are less steeply graded in co-operative than in non-co-operative employment weakens the financial aspect of the promotion incentive. Promotion to higher posts is often slow, and there is not enough provision for salary increases as an alternative to promotion in case no early vacancy arises.[2] In consequence, there is a tendency for the more ambitious of the staff, after a period of co-operative service, to seek employment outside.

There is one financial incentive which may be mentioned here—namely bribery. The charge that corruption is particularly widespread in the co-operative movement is one which is very frequently made by private traders. It is important to see what truth there is in this charge. Bribery is understood to mean a payment to an employee in order to influence his actions in a manner possibly detrimental to the undertaking by which he is employed. This is most likely to occur in the case of employees responsible for buying or placing orders. Wherever this occurs, whether in co-operative, municipal, State or private enterprise, it will be attended with equally harmful results by diverting trade from what is economically the most efficient arrangement. Bribery is ruled out for all the transactions taking place *within* the consumers' movement, not necessarily because of any superior integrity on the part of co-operative officials, but simply because the incentive is absent. A salesman will only bribe a buyer if he is paid to do so by the firm he represents, or if he receives a considerable commission on sales. There are no such inducements in the co-operative movement.

[1] Cp. Webb, *Consumers' Co-operative Movement.*

[2] From 1936 a new policy was instituted by the C.W.S. whereby the salaries of all members of staff not subject to collective agreements are reviewed annually.

The possibility of bribery in the co-operative movement is thus confined to transactions between co-operative societies and private concerns, which account for less than half of the total trade. The main points where it might occur are where the national wholesale society buyers and retail society buyers buy from non-co-operative sources. The responsible position and careful selection of wholesale buyers probably reduces the risk here. There is possibly some bribery of retail society buyers, but direct purchases by retail societies from private traders amount to only 20 per cent. of their trade. Since co-operative salary scales are less steeply graded than in private trade, the higher officials are less highly paid, and the temptation to add to their income by accepting bribes is increased. But the close contact in retail societies between the chief buyers and the management committee makes systematic bribery difficult. It might be suggested that the management committee itself could also be involved and, while this may have happened in a few cases, the general publicity given to the affairs of a retail society, and the very strict view taken by the membership of any abuse of this sort, rules out such a possibility on any considerable scale. There are in private trade a great many borderline practices which are not usually permitted in the co-operative movement. Many private salesmen undoubtedly obtain orders from retail society buyers not by direct bribery, but by a more subtle mixture of flattery, minor gifts in kind, drinks, and the like. The co-operative movement takes a more strict view of these matters than is usual in the business world, even to the point of considering many of the accepted customs of trade in private enterprise to be forms of bribery.

§ 6. *Control Accounts*

If the controlling board of an industrial undertaking is to keep an effective check on its management, one of the first essentials is a systematic and regular record of the financial and trading position. With the development of larger and more complex industrial concerns, the science of higher control accounts becomes more elaborate.

In the wholesale societies, financial details are sent weekly from productive works and sales departments to the accountant's office at headquarters. In the C.W.S. a monthly financial statement, in the form of a private booklet of 300 pages, is compiled. This contains a schedule

of sales and stocks for every productive works and every service and distributive department, together with comparative figures for the previous year and the percentage change. For each productive works, particulars are compiled of stocks, purchases, hours worked, wages, and other estimated expenses. For distributive and service departments, an annual analysis of expenses is compiled and presented to the appropriate committee. The main weakness of the system of control is the inadequacy of the costing staff, who are too taken up with routine work to be able to apply costing principles critically to the processes undertaken.

The control accounts of retail societies vary according to the size and efficiency of the society. In a fairly large, up-to-date society, the weekly control accounts presented to the board will include the following: (1) Trading accounts giving total sales analysed for each department and for each branch, so set out as to allow of comparison with the previous periods. (2) Estimated gross profit account for each department. (3) A costing record for productive and quasi-productive departments (e.g. bakery, butchery, dairy, boot repairing). In addition to these continuous records, certain controls are available for each accounting period, one of these being the "leakage account". The importance of this form of control has been somewhat reduced by the development of modern forms of continuous control accounts; but as it is still of considerable use and was largely developed within the co-operative movement, it deserves description. It depends upon bringing all goods to a common basis of measurement, namely retail selling price. A branch or department is debited with opening stocks and stocks supplied to it during the accounting period, all at selling prices; it is then credited with sales during the period and the retail value of closing stocks. Any debit balance outstanding (subject to a correction for changes in price of goods while in stock) is termed the "leakage" of the branch or department, and may be due to various causes, such as errors in cash taken, pilferage of goods, shrinkage and evaporation, loss in cutting up of bulk goods, breakages, loss of perishable goods, selling off of obsolete or stale goods at reduced prices. In some lines (e.g. tinned goods and footwear) leakage should normally be nil, but in others (provisions, cooked meats) a small leakage is unavoidable. A "negative" leakage can only occur if assistants are not giving customers full value. The leakage account enables the directors to detect waste or fraud in the passage of goods through

departments and branches. It has to be recognized, however, that it provides a check on certain types of inefficiency rather than a positive measure of management efficiency. The elevation of the leakage account to the main criterion of the efficiency of a branch may have certain unfortunate results. A branch manager may deliberately avoid those goods in which leakage is high and endeavour to confine his sales to goods with a low leakage rate; and he may endeavour to reduce his leakage rate at the expense of his customers by giving short weight or even by increasing prices. It need not be emphasized that anything which leads to a feeling of suspicion between the assistant and the customer is extremely harmful to trade. These results may be avoided by an intelligent use of leakage accounts, but also by recognizing that an expansion of sales is a better indication of the ability of a branch or departmental manager than a low leakage rate. The sectionalizing of leakage accounts for different lines of goods is usually desirable, as it enables leakage to be identified more easily and also allows of a fairer comparison between the management of branches in which the character of trade is somewhat different.

Once every accounting period—usually every half-year—there is a physical stocktaking. This is necessary for compiling the assets and liabilities account and also for completing the leakage account. This stocktaking is still, in many societies, the responsibility of board members, but it is now coming to be recognized that it should be performed by an independent permanent official.

The larger societies are adopting to an increasing extent modern methods of stock control. In dry goods departments, stock is given a code mark indicating maker, period received, invoice and (in plain figures) selling price. This allows stocks to be easily recorded on stock sheets and, by suitable summarizing, enables managers to see the age of stocks and detect old stocks or slow selling lines. Systematic marking in this way also greatly facilitates stocktaking. In food departments, sectionalized quantity records of commodities are kept, recording purchases and sales cumulatively. In many societies there is an elementary form of budgetary control, the manager determining the size, kind and movement of stocks for departments or branches.

§ 7. *Conclusion*

The managerial problems of the consumers' movement are, to a large extent, common to industry as a whole, but are in some ways made more difficult by institutional causes and especially by the high degree of lateral integration usual in co-operative undertaking. The present managerial organization of many societies, including the national wholesale societies, seems to accentuate the difficulties of wide lateral integration by undue centralization, and by limiting the discretionary powers of managers unduly, but at the same time fails to take advantage of the very considerable benefits which large-scale integration could give, especially in the provision of adequately equipped service, research and specialist departments. It ought to be the declared policy of directors to stimulate the self-confidence of managers, and the same policy should govern the relations of superior to subordinate managers. Occasional mistakes, provided that the manager conforms to the general policy laid down by the board, are less injurious than crippling the initiative of managers by surrounding them with a network of control and regulation.

In the recruitment and training of staff, societies make a laudable effort to reduce the effects of class privilege. In common with certain other working-class organizations, however, they frequently fail to realize the need for adequate training, and the importance of attracting men of the highest ability. In a few departments—architecture, pharmacy, scientific research—the appointment of professionally trained staff is forced upon societies, but it is forgotten that very many occupations—salesmanship, journalism, advertising, market research, cost accounting—demand under modern conditions an equally high degree of professional equipment. The internal training of staff is often too restricted owing to the lack of responsible subordinate managerial posts and the unwillingness of the higher management to delegate their powers. There is an urgent need for the larger societies to develop a training scheme, whereby future managers may have a wider experience and more flexible outlook; and there is also the need for a more systematic method for the selection of younger employees of initiative.

The movement has for historical reasons been opposed to payment by results and to a steeply graded promotion scale with very highly paid posts at the top, as incentives to its managerial staff. The chief

factors which enable the movement to retain in its service a number of able managers who could obtain far higher remuneration outside are, first, a loyalty to the social purpose of the movement, and secondly the advantage of a greater security of tenure; but although able men are retained in the service of the movement, conditions do not always permit them to exercise their ability to the full. There is no inherent reason why the movement should not make a greater use of direct financial incentives; but there would be less need for financial if a better use were made of non-financial incentives, and if there were a more satisfactory promotion scheme. A manager deprived of professional interests and possibilities of development becomes, very naturally, mainly interested in his salary.

One reason for the very rigid control which co-operative boards often exert over their managers is the lack of an adequate system of control accounts. If a better costing and control account system were in force, it would be possible to grant greater freedom of action and initiative to managers, without the board losing control of the efficiency of the society. These weaknesses are, however, largely incidental and not inherent in the co-operative form of organization, so there is no reason to doubt that co-operative undertakings will be able to overcome them.

CHAPTER 21

EMPLOYMENT

§ 1. *Recruitment and Promotion*

THERE are 300,000 workers employed by co-operative societies. They include salesmen, clerks, transport workers, engineers, builders, in fact, nearly every grade of skilled, semi-skilled and unskilled workers to be found in industry and commerce. The majority are recruited at the elementary school-leaving age. Salesmen and clerical and administrative workers in both the retail and wholesale societies invariably start as juniors and follow a life career in co-operative service. In manufacturing plants and in service and transport departments, however, the proportion of employees who started as juniors is much smaller; many adults in these departments have been recruited through advertisement[1] or Labour Exchanges.

Appointment of junior employees in retail societies is usually in the hands of departmental managers, although management committees also take a certain amount of interest in this matter. There may be a competitive examination or a selective process based on an interview, both of which may or may not be restricted to members' children. Generally speaking, the interview test favours members' children. It is usual for prospective junior employees to be asked whether their parents are members of a co-operative society or not, and the reply to this question has some influence upon their prospects of engagement. In the case of some retail societies there are definite rules that parents must be members, that they must not be carrying on a competitive business, and sometimes also that their purchases must exceed a certain amount.

The normal age at which children enter co-operative service is fourteen. Secondary school children are not directly barred, but there does appear in some cases to be a prejudice against them, which is not lessened by the natural reluctance of many secondary school-children to begin in the humbler capacities which children of fourteen

[1] The *Co-operative News* performs one of its most important functions in facilitating the exchange of labour in this manner. Societies recruiting labour from within the movement usually obtain information about candidates from the management committees of the societies in which they are employed.

will more willingly accept. This policy raises an important issue, for the co-operative movement has on numerous occasions approved of expressions of opinion in favour of raising the school-leaving age, and these expressions have not been stimulated solely by a desire to relieve unemployment. If the co-operative movement is to demonstrate the genuineness of its opinion that education at least up to the age of sixteen is desirable for all children, it will be necessary for it to show greater willingness to accept children who have already continued their education to that age.

The reasons for this difference between precept and practice are not difficult to understand. Co-operative wage agreements provide for a starting age at fourteen, and thereafter annual wage increases have to be granted. Most managers are opposed to engaging juniors at fifteen or sixteen because their commencing wages are higher than a boy or girl at fourteen would receive. Another argument put forward is that to take on a junior at sixteen, instead of fourteen, means the loss of two years' training. Again, children who go to secondary schools until the age of sixteen usually do so in the hope of obtaining something better than a shop assistant's job, and there is the feeling that only the failures from secondary schools are likely to apply for co-operative employment and that a bright elementary schoolboy may be a potentially better servant. This would hardly apply, however, to children remaining at Senior Elementary or Junior Technical Schools.

There is some substance in these arguments, but they do not outweigh the fact that the policy of co-operative societies encourages parents to take their children from school at fourteen, and even to take them from secondary schools before the normal leaving age. They thus deliberately deny their children the higher education they should and could receive. To counteract the effect of this, the simple expedient adopted by the C.W.S. might well be adopted by the whole movement. The C.W.S. accepts junior applicants for employment at fourteen, fifteen, sixteen, and sometimes even older. Provided they pass the entrance examination, they are taken on as vacancies occur, and after a short period, often only a few weeks, on messenger, postal, or similar work, they are drafted to the posts for which they seem most fitted. The wages difficulty is easily overcome. Juniors starting at fourteen to sixteen all receive the age fourteen scale for the first year and are afterwards paid the scales appropriate to their

ages. In this way no distinction is made between boys and girls from elementary and secondary schools. All stand an equal chance, or rather, because of the entrance examination, the scales may be weighted somewhat in favour of secondary school children. The C.W.S. has thus provided as direct an incentive to parents to give their children the opportunities of continued education as existing circumstances allow.

To a very large extent, the recruitment of juniors in retail societies is restricted to members' children. It is easy to understand a society's reluctance to take into its employ adults who have had no contact with the co-operative movement. To be efficient a co-operative worker must be more than a good workman. He must also have a knowledge of the structure and aims of the movement and be interested in its activities. But it is shortsighted not to take the brightest and most intelligent juniors, irrespective of their parents' view. Young people can be taught to take an interest in the movement. Members who strongly support this restriction, considering it unfair that children of non-members should be employed in their societies, should remember that it is even more unfair to make such children bear the consequences of the actions or opinions of their parents, and that if taken in co-operative service, they may succeed in inducing their families to join the movement.

The number of young persons under eighteen employed in the distributive trades, according to the 1931 Census, was 420,260, or 14·4 per cent. of the total number employed. In 1931, according to the Registrar of Friendly Societies, 18·8 per cent. of retail co-operative societies' employees were young persons under eighteen. The figures are not strictly comparable, since all types of retail shops are covered in the former case; but they indicate the importance of the problem. On the other hand, the proportion of women employed by retail co-operative societies is much smaller than for the retail trades as a whole. This is accounted for by the fact that the grocery trade is regarded as an occupation for men, and by far the largest field of co-operative retail employment is in grocery shops. Its position in the drapery and similar trades where women normally find employment is relatively not so important, but even here the movement often employs men in posts which other employers reserve for women. It would appear that co-operative societies endanger their competitive ability by retaining at sixteen most of the young persons appointed at

fourteen, and by employing too few women. This apparent antipathy to the employment of women reveals a curious aspect of co-operative mentality. Not all societies are subject to it, but in many it is a tradition to employ men whenever it is possible to do so. By following this tradition societies certainly increase their operating costs. Against this, they prove that they cannot be accused of seeking to employ cheap labour.

There appears to be comparatively little dismissal of young persons in the co-operative movement. Many societies, on engaging juniors, make a stipulation that such engagement shall be regarded as of a temporary nature. There is, however, a difference between making such a stipulation and giving it general effect. A policy of widespread dismissals at the age of sixteen would certainly arouse the ire of the members. Nevertheless, the increasing proportion of unskilled labour required is a problem which the movement has to face and it has given a good deal of attention to it. The Labour Department of the Co-operative Union recently advised societies to overhaul their delivery systems, particularly bread and milk delivery, where blind-alley employment is mostly found, so that by efficient organization the temporary employment of juniors could be eliminated. The Department also suggested that there should be a very careful and responsible selection of juveniles and that continued education should be made a condition of employment. In this way an efficient staff could be recruited and the employment of relatively inefficient juvenile labour eliminated. But the co-operative movement alone cannot solve this problem: it is national in its scope, and the solution can only be found on a national basis.

Dismissals in the co-operative movement are resorted to as rarely as possible. This is in the main due to the existence of pension schemes and a reluctance to condemn an employee to unemployment. The demand for labour has been increasing for some time, so that this policy can be pursued effectively. In most cases gross inefficiency or dishonesty are the only causes of dismissals. The employee who, on reaching adult status, shows himself to be inefficient is generally transferred to a routine position which does not require much adaptability. Only the larger societies have a sufficient staff to enable such transfers to be made without impairing their services. So long as routine jobs are available, transference of relatively inefficient employees is to be preferred to dismissal. Many societies, however,

continue to carry workmen in jobs for which they are unfitted. One factor entering into this reluctance to dismiss employees may be the close personal relationship which exists in small and medium-sized societies between the staff and the committee of management. In addition, the employee has always a right of appeal to the general meeting—not a formal right, but one which can be exercised in practice, because the employees, forming a large block at members' meetings, may succeed in having such questions raised and discussed openly. In private enterprise dismissal may be undertaken for various reasons much more lightly.

§ 2. *The Question of Nepotism in the Co-operative Movement*

The co-operative movement is often charged with widespread nepotism. It is obviously impossible to examine the antecedents of each of the 300,000 employees to decide whether the charge is justified. If such a course were possible, we should expect to find many sons, daughters, brothers, sisters, nephews and nieces of co-operative officials among the employees. At a first view, that might seem to point to widespread favouritism. But in the absence of actual facts, it is necessary to examine the opportunities for, and checks on, nepotism. Opportunities undoubtedly exist. Vacancies in co-operative service are being filled daily. There is a fellowship among co-operative officials that has few counterparts outside the movement. An official can without difficulty quickly and effectively recommend one of his family for a vacant post. His recommendation may be treated favourably, for it will be directed to a fellow official who knows that he himself may be in need of a "good turn" sometime. It should be noted, however, that retail societies' officials hardly ever recommend members of their families for posts in the societies in which they themselves are employed. Thus, on the retail side, nepotism boils down to personal recommendation to another society.

What are the chances of these recommendations being successful? It frequently happens that the person recommended, provided he has the necessary qualifications for the post, is given favourable consideration in the early stages of selection, and he might be successful in being placed on the short list to be interviewed. But in most cases it appears that only in the event of his abilities and qualifications proving equal to those of another candidate in the final selection is

the personal recommendation likely to carry any weight. On the other hand it is known that some management committees and officials refuse to consider a "sponsored" candidate for any post. It may be argued that it is unfair to give favourable consideration, even in the early stages of selection, to a candidate who has been pushed forward in this manner. It is not easy to decide how unfair such a procedure is, or how serious are its consequences. Measured by the standards of a perfect hypothetical system, there are perhaps grounds for criticism. Measured by the standards of the existing commercial world, the co-operative movement appears to be one of the least offenders, for its democratic methods of management provide fairly effective checks on patronage and favouritism.

Positive checks on nepotism are included in the rules of some societies, which lay it down that no member of the management committee shall continue in office, or be eligible for election, if the society gives employment to a member of his family. For many years the C.W.S. had a rule that no more than one member of one family would be given employment. There are disadvantages in such rigid rules, as the C.W.S. discovered. A brilliant son of an official or a wage-earner should not be denied employment because his father is engaged in a specific occupation. Ability should determine selection, not family ties, either negatively or positively. Rules of this kind are, however, becoming more common in the retail societies.

Indirect checks influence the officials responsible for recruiting labour. Obvious nepotism in retail societies would quickly be the subject of discussion at members' meetings. If a member of the management committee were involved, his chance of re-election would be considerably weakened, for he would have to meet disapproval from a strong combination of forces: disgruntled employees and critical members. The wholesale societies, too, are subject to similar observation, criticism, and, if necessary, effective disapproval. It is unlikely that a director of the wholesale societies would be turned out of office for engineering a person closely related to him into a post for which other candidates had better claims. But he would be subject to some criticism, and as directors are thus indirectly restrained from sponsoring members of their own families, so do the directors restrain managers and other officials from similar action.

Close relatives of officials do, however, occupy posts in the movement; but the reason is not that the democratic checks have been

circumvented; it is to be found in the large size and varied nature of the organization. There can be no criticism of the official who wishes his son to have a career in co-operative service. Coal miners, postal workers, civil servants, men in every occupation, are prompted by the idea that their sons can follow in their footsteps. The co-operative movement is large enough to provide careers for many sons and daughters of employees. Inevitably, patronage and favouritism are bound to operate as they do to a greater or lesser degree in every commercial undertaking. But in no other undertaking are those responsible for appointments under the control of a democratic constituency and, indirectly but effectively in such matters, so much subject to the criticism of the employees.

§ 3. *Working Conditions*

The co-operative movement prides itself on the relatively good conditions of employment which have been secured for its workers. This pride appears to be justified by the available evidence of conditions in industries and trades comparable with co-operative enterprises. To obtain evidence of comparable working conditions is often extremely difficult. The majority of co-operative employees are engaged in distribution,[1] and there is far less information available about working conditions in the distributive trades than in most other occupations. Thus it is impossible to make accurate comparisons over the whole range of distributive employment.

Working conditions in private and multiple shops and department stores are far from uniform. There are wide variations in wages paid for comparable posts, in the number of hours worked per day and per week, and in such aspects of employment as holidays, sick payment, pensions, rest periods and the right to organize in trade unions. There is no minimum standard of conditions legally enforced

[1] According to the 1931 Census, there were 2,915,000 persons engaged in the distributive trades in Great Britain, of whom 1,989,600 were males and 925,500 females. One-eighth of the occupied population were employed in distribution. These figures include, in addition to wage-earners, non-insured workers, proprietors of shops and salaried employees earning more than £250 a year. In 1931 the number of insured workers in the distributive trades was 1,874,780; in 1935, 2,007,340, an increase of 8 per cent. in four years. In the same period the number of co-operative workers engaged in distribution grew from 201,800 to 223,700, an increase of 11 per cent. The number of persons, including insured and non-insured, now engaged in the distributive trades exceeds 3,000,000 and approximately 7·5 per cent. are employed by co-operative societies.

apart from the regulation of hours. A Grocery Trade Board was established in 1925, but it was ineffective, and is now extinct. Recently, however, there has been a renewed agitation for some kind of control over working conditions in the distributive trades. The Ministry of Labour, the distributive trade unions and several employers' associations support the idea of establishing minimum conditions applicable to all distributive workers. There is less unanimity on the methods of determining minimum conditions and the manner in which they should be enforced. Some employers favour voluntary negotiation with employees to determine hours and wages; the agreed conditions would then be sponsored by the employers' associations and all employers would be persuaded to adopt them. A few advocate a Trade Board or, alternatively, government enforcement of freely-negotiated terms. Many are opposed to any form of regulation, believing that, while there may be some black spots in the trade, the few offending employers should not be used to bring Trade Boards or trade union interference into their operations. The trade unions have an easier task. They demand improved conditions, and to determine what the hours and wages of shop assistants should be they are willing to negotiate with employers or with the Minister of Labour. It is difficult to predict the outcome of the conferences which the Minister has held with the employers for the purpose of finding some method of controlling hours and wages.

The agitation for improved working conditions has stimulated some of the larger employers to negotiate agreements with the Shop Assistants' Union. It has also had the effect of revealing the prevailing hours and wages in some branches of the distributive trades; and with this information, incomplete as it is, some comparisons can be made with co-operative conditions. In their demands for better conditions the Shop Assistants' Union has given particulars of wages paid by some employers. An enquiry conducted by the Union into grocery assistants' wages showed that the average wage for an adult male assistant was 38s. 6d. per week, and that 22·3 per cent. of the assistants covered by the survey were in receipt of 30s. or less, while only 1 per cent. received more than 55s. per week. A similar enquiry in the tailoring trade showed that among adult male shop assistants 28·8 per cent. received less than 40s. per week, 60·5 per cent. received less than 50s., and 18·4 per cent. received more than 60s. per week. One case is cited in the drapery trade where sixteen girls and young

women, ages sixteen to twenty-five, received between them £7 18s. per week, an average weekly wage of less than 10s.[1] These are probably about the lowest wages paid in the distributive trades although there is no evidence to support that assumption, and there is no evidence to show the number of employers who pay such wages or the number of employees who receive them. That relatively low wages are paid by a disturbing number of employers is obvious from the efforts which the employers who pay higher scales are making to achieve an all-round levelling up.[2]

The evidence of wages paid by the better employers is more satisfactory, for the agreements which some of them have negotiated with the Shop Assistants' Union have been published. Probably the most important agreement is that made with Lewis's Ltd., a department store firm with branches in Liverpool, Manchester, Leicester, Leeds, Birmingham, Hanley and Glasgow. The wage scales in the agreement are shown in Fig. 32. The agreement also provides for a forty-eight hour week, two weeks' annual holiday with full pay, and full pay for statutory holidays, payment during sickness for a period of seven weeks, retiring pensions, and provides for differences arising from the agreement to be adjusted by negotiation between the firm and the Union. Stimulated by the results of its negotiations with Lewis's Ltd., the Shop Assistants' Union has asked other distributive employers to make agreements on similar lines. A number of employers have done so, and the conditions thus laid down for different branches of the distributive trades are the conditions which the more generous employers and the Unions wish to make generally applicable. The wage rates for male workers specified in these agreements are given in Fig. 32, and are compared with the "lowest" rates revealed by the Shop Assistants' Union's investigations on the one hand and with co-operative rates on the other. The range of "lowest" rates (column 3) gives actual earnings. The agreed rates, both in private enterprise and co-operative societies, represent minimum wages. In all probability the majority of employees receive no more than the minimum rates up to the age of twenty-four or twenty-five. Thereafter many receive increases for proved efficiency or additional responsibilities. In addition some departmental and multiple stores'

[1] The *Shop Assistant*, February 20, 1937.

[2] See the *Drapers' Record*, *Grocer*, and other trade papers, especially the issues published in the later months of 1936 and early 1937.

employees receive commissions on sales which raise their earnings above the minimum wage rates; and some co-operative societies have established their own rates at a higher level than those in the agree-

FIG. 32

RETAIL DISTRIBUTION
COMPARATIVE WAGES OF MALES

Trade	*Age*	*Range of Lowest Rates in Private Enterprise**	*Rates in Recent Agreements with Private Enterprise*	*Range of Co-operative Rates‡*
Department Stores ..	14	No Figures	14/-	11/- to 13/6
	16		18/-	
	18		30/-	22/9 to 32/-
	20		37/-	
	21		43/-	44/6 to 64/-
	23		47/6	
	25		52/6	64/-
Grocery Stores ..	14	About 10/-	12/-†	11/- to 13/6
	16		19/-	
	18		30/-	22/9 to 32/-
	20		44/-	
	21	Average 38/6	50/-	44/6 to 64/-
	23		55/-	
	25		60/-	64/-
Clothing, Outfitting, and Drapery Stores (Provincial)	16	About 10/-	15/-	11/- to 13/6
	18		25/-	22/9 to 32/-
	20		35/-	
	21	Average less than 50/-	43/-	44/6 to 64/-
	23		53/-	
	25		60/-	64/-

* Taken from figures published by the Shop Assistants' Union.

† Rates under negotiation.

‡ Agreed rates in the co-operative movement differ between the nine Sectional areas. The rates shown here are the highest and lowest for the country as a whole.

ments. Nevertheless, after taking these facts into consideration, co-operative rates are generally higher, especially for adults, than the rates paid by most employers in the distributive trades, and greatly superior to the "lowest" rates, as shown in the table, that are paid by some employers. It is believed that some establishments catering for

the more expensive side of distribution pay rates higher than co-operative societies, but there is little evidence of the actual rates paid.

The wages of women distributive workers are lower than the rates paid to men. In Fig. 32 the agreed rates for men in private enterprise department stores start at 14s. at fourteen years and rise to 52s. 6d. at twenty-five. The comparable rates for women are 14s., rising to 37s. 6d. In the clothing and outfitting group the rates for men are 15s. at sixteen, rising to 60s. at twenty-five; for women, 12s. rising to 36s. The rates for co-operative women workers are in a similar relation to the rates for men.

When we turn to the conditions of co-operative employees engaged in manufacturing and service occupations, comparisons can be made more easily. Most manufacturing occupations are subject in some degree to trade union agreements or to the decisions of Trade Boards. It is the custom in the co-operative movement to accept as the minimum conditions for each occupation the wage rates and other conditions agreed to between Employers' Associations and Trade Unions. This simplifies the labour problem of the wholesale societies. The C.W.S., for instance, has to deal with a hundred and more different occupations. To lay down uniform rates for all C.W.S. workers has not been found practicable, but acceptance of the agreed conditions for each trade is a simple and, under existing circumstances, an equitable method of working. Uniform conditions throughout the C.W.S., even if they could be applied, would place a handicap on C.W.S. plants in the lower paid industries. C.W.S. products have to compete with comparable products of capitalist concerns. Wages costs in the C.W.S. must not be so high that they inflate the prices of products to the disadvantage of the C.W.S. As far as possible each factory owned by the wholesale societies has to pay its way; but in many cases factories in which the minimum wage rates are unduly low are enabled, by the centralization of finance and profit or loss, to pay wages somewhat higher than the minimum rates. Most workers in co-operative factories subject to Trade Boards Agreements, in general the lower paid occupations, receive more than the minimum rates. In industrial occupations, therefore, the conditions of co-operative employees compare favourably with comparable conditions outside the movement.

There are, however, many co-operative employees outside the retail distributive trades who do not come under agreements laid

down by Trade Boards or agreements negotiated between Employers' Associations and Trade Unions. Clerks, warehousemen, salesmen and packers employed by the wholesale societies form a large group for whom separate conditions have to be determined. Outside the co-operative movement such workers are largely unorganized, and are not covered by trade union agreements. There are often no non-co-operative standards to serve as the co-operative minima. The majority of these co-operative workers are compulsorily organized into trade unions, and are in a somewhat strong position as a result of the absence of generally agreed conditions, for they are able to make demands for conditions without relation to outside agreements. The C.W.S. wage scales for clerks and salesmen rise from 12s. per week at fourteen years to 68s. at twenty-four. Women clerks, typists and saleswomen rise from 11s. to 45s. The highest minima, i.e. at twenty-four years of age, are 64s. for male warehouse workers and packers, and 42s. for women; 60s. for male porters, cleaners and general workers, and 39s. for women. The wage paid at twenty-four is the minimum wage for adults. Above the age of twenty-four wages are determined for each employee according to his or her ability and the nature of the position held. All but a few of the male employees in the clerical, supervisory and sales grades continue to receive progressive increases. Women in these grades do not receive such progressive increases as men, owing to the fact that very few women occupy higher posts. Porters, cleaners and general workers, with few exceptions, remain at their adult minimum, and the wages of warehousemen and packers, while they seldom remain on the minimum, do not rise so much above it as the clerical and salesmen's grades. Similar wage scales operate in the Scottish C.W.S.

These minimum adult rates, measured by the wage standards in comparable non-co-operative employment, are fairly high. The method of granting progressive increases for ability, and to those in responsible positions, is to assess them on the annual wage reviews of the managers of departments. These reviews are considered by the Staff Office and Wages Committee, who attempt to co-ordinate salaries on the basis of comparable responsibility. It is impossible to avoid anomalies. For instance, those C.W.S. employees who come under the agreements, mentioned above, for clerks, salesmen, warehousemen, packers, porters and other general workers, known as the Class A Staff, are often paid higher wages than skilled artisans doing more responsible

work. A Class A porter receiving more than £3 a week probably has a higher wage than a skilled engineer. Correction of this anomaly is not so simple as it would appear, for the skilled engineer, receiving at least trade union rates, may be enjoying conditions much better than those given to similar labour by the majority of firms. There are many industries in which the C.W.S. is engaged where the organization of workers is weak. Under such circumstances the exigencies of competition have to be considered.

Hours of work are nearly as important a factor as wages in determining satisfactory working conditions. In retail distribution the existence of such a large number of shops in which the proprietor and his family are the only workers has made legal control of shopping hours a real necessity. Yet, despite frequent efforts, the legislation limiting the hours that may be worked by shop assistants is considered to be very unsatisfactory by the trade unions. Young persons are limited to a forty-eight hour week by the Shops Act of 1934, but older employees are subject only to legislation dealing with the opening hours of shops and rest periods. With few exceptions all shops must close at 8 p.m. on four of the six working days. On one day they may remain open until 9 p.m., and on the other they must close at 1 p.m. Local authorities can order shops to close at 7 p.m. Employees are not permitted to work more than six hours without a twenty-minute interval, and meal times are prescribed. It is clear that even with this restrictive legislation shop assistants can be made to work considerably more than forty-eight hours a week. The Select Committee on Shop Assistants investigated the hours worked by assistants in different classes of shops in twenty-three large and small towns and discovered that wide differences existed.[1] The results are summarized in Fig. 33.

In all the distributive trades many shop assistants work more than 45 hours a week. Only in three branches is the probable average 48 hours. In the rest the average working week exceeds 50 hours, and in most trades a large number of assistants are employed up to 56 to 60 hours.

The weekly number of hours worked by co-operative shop assistants is considerably less than the numbers shown in Fig. 33. As we shall see later, employment in co-operative shops is regulated by Hours and Wages Boards. These regulations provide for a maximum

[1] Reports of the Select Committee on Shop Assistants, 1930 and 1931.

working week of 48 hours in all sections except the Northern Section, where a week of 44 hours is laid down. The hours of clerical workers vary from 40 per week in the three Northern Sections to 48 in the South-west and in Scotland.

In the wholesale societies the hours of work vary from 41 for clerical and administrative staffs to 48 hours per week for certain productive workers. The number of hours worked in any particular occupation depends on the appropriate trade union or Trade Board agreement; 48 hours is the maximum working week in the wholesale

FIG. 33

HOURS WORKED PER WEEK IN RETAIL DISTRIBUTION
1930–1

Trade	*Range of Hours Worked*	*Probable Average*	*Hours Worked by Greater Number of Assistants*
Bakers	44 to 75	54	50 to 58
Boot and Shoe Salesmen	44 to 56	48	46 to 52
Butchers	41 to 66	55 to 56	52 to 60
Chemists and Drug Stores	40 to 64	51 to 52	48 to 55
Sweets Shops	42 to 80	56	50 to 60
Cooked Foods	42 to 66	55 to 56	52 to 60
Dairies	45 to 70	52 to 53	46 to 58
Departmental Stores	43 to 57	48	47 to 50
Drapery and Clothing	41 to 60	48	48
Fish and Poultry	40 to 62	54	48 to 56
Greengrocers	44 to 64	55	48 to 60
Grocers	45 to 64	54	48 to 56
Hairdressers	46 to 65	53	48 to 56
Ironmongers, etc.	42½ to 57	51	46 to 52

societies and a large proportion of their employees work a shorter week.

The discrepancies that exist between co-operative and other concerns in retail distribution are not apparent in the wholesale distributive trades. The Committee on Shop Assistants found the hours normally worked in wholesale establishments did not exceed 48 per week. In the sales departments of the wholesale societies the normal working week is 41 hours.

The prevalence of overtime in the distributive trades, co-operative and otherwise, is one of the factors that renders exact comparisons difficult. The results of investigations in a number of large towns,

carried out for the Committee on Shop Assistants, suggest that overtime is usual in private trade almost everywhere. In the co-operative movement the practice varies with local circumstances. Some societies are strongly opposed to overtime, in which case it is rarely worked; others regard it as unavoidable. It should be remembered, however, that in the co-operative movement overtime is based on a shorter working week, and all overtime beyond the fifteen minutes allowed for clearing the shop is paid at special rates. In evidence given before the Committee on Shop Assistants, on behalf of the Federation of Grocers' Associations, it was stated that it was not the practice to pay for overtime, this being offset by the fact that it was not the practice to deduct pay for time lost as a result of sickness or public holidays.

Three facts emerge from this consideration of working hours. First, in trades other than retail distribution, there is not much difference between the hours worked in co-operative and some non-co-operative plants. In fact, there are a few employers keenly interested in industrial welfare who have introduced a shorter working week than that operating in co-operative factories and depots. But on the whole the rigidity of agreements and the general attitude to labour conditions in the co-operative movement have given most of its workers a shorter working week than similar workers in other firms have been able to obtain. Second, in retail distribution there are wide disparities between co-operative and non-co-operative employment which tend to increase the relative costs of co-operative retailing. Third, these disparities not only handicap the co-operative movement, they also raise a social question, for it is clear that this necessary improvement in the labour conditions of shop assistants, a limitation of working hours, can only be obtained by a more drastic public regulation of shopping hours.

The main argument against the regulation of hours all along has been that a restriction of shopping hours would bear heavily on a public which does most of its shopping late in the day. The representative of the U.K. Association of Multiple Shop Proprietors, which was responsible, according to their evidence, for over 30,000 workers, stated before the Committee on Shop Assistants that "A society trading with its own members can within reason make what arrangements it likes as to hours and conditions of service rendered. The custom that they enjoy is very largely automatic. A 48-hour

week would oblige the Association to engage more staff, and this would obviously result in lower wages or higher prices. Furthermore, it would tend to cause casualization, and would moreover require a very elaborate system of inspectorship in order to enforce the standard hours of work."

The Federation of Grocers' Associations also used the argument of public interest. According to the evidence of this body, hours were found to be on the average 54 to 56 per week, but the variety of public needs in different areas caused variations in the hours worked. They were of the opinion that any statutory working week of 48 hours would work against the convenience of the public. On the wholesale side, the wholesale grocers were of the opinion that it was because the C.W.S. sold to tied customers that it was able to concede a 48-hour week in its establishments. Furthermore, in their view, if the C.W.S. had to enter into open competition in business, it would require greater elasticity of hours.

The co-operative movement has not found it necessary to introduce casual labour into its shops to any extent. In 1934, a fairly representative year, about 4 per cent. of the membership of the trade union catering mainly for co-operative workers were on unemployment benefit. This figure compares well with the general average of 15 to 17 per cent. for the distributive trades as a whole. There is a certain amount of local unemployment in the movement. In 1934 the N.U.D.A.W.[1] had 6·02 per cent. of its members on benefit in the Northern area, 6·53 per cent. in the North-western area, 1·9 per cent. in the South and London, and 1·83 per cent. in the Midlands.

The superiority of co-operative labour conditions is more marked in matters other than wages and hours. Holidays with pay, retiring pensions, pay during sickness, and opportunities for advancement and promotion, have received far more attention in the co-operative movement than in most other spheres of commercial employment. It is an invariable rule in all societies to grant all employees holidays with pay. The period varies from one week to a fortnight for retail employees, in addition to statutory, and customary local holidays. Class A employees in the C.W.S. receive a fortnight with an additional week for those with annual salaries exceeding £500. The Scottish

[1] The organization of N.U.D.A.W.—the National Union of Distributive and Allied Workers—94 per cent of whose members are co-operative employees, is described on page 350.

C.W.S. grants a fortnight with an additional week after twelve years' service. Productive workers of the wholesale societies receive at least a week in the summer and all statutory and customary holidays.

Payment during periods of sickness is also general in co-operative employment. The period for which full pay is granted varies between societies, depending usually on the length of service. The C.W.S. grants five weeks' full pay, less the amount received from Health Insurance benefits, to adults with five years' service, and half-pay for at least four other weeks. These periods are extended as the length of service increases. Senior officials are granted three months' full pay and a further nine months' half-pay. The period during which half-pay is granted may, if the circumstances warrant it, be extended considerably for all grades.

The majority of retail employees are covered by contributory pension schemes. There is some variation in the contributory payments and pensions, but all aim at providing employees with a subsistence pension on retirement. The schemes are usually administered by a joint committee of representatives of the committee of management and employees. More than 158,000 of the 212,000 retail employees are covered by pension schemes, although only 285 of the 1,000 retail societies have adopted the idea. Similar schemes have been introduced by the wholesale societies. In these important aspects of industrial welfare the co-operative movement is very much in advance of the majority of industrial and commercial concerns. If success attends the recent agitation for the legal enforcement of holidays with pay and other labour reforms, the co-operative movement will reap the benefit, for it has already adjusted itself to the costs of such welfare schemes. Most co-operative societies, too, have given attention to recreational facilities for their employees. The wholesale societies and the larger retail societies provide sports grounds, meeting rooms and canteens, and assist financially and otherwise to encourage dramatic societies, choirs, orchestras, sports clubs and libraries.

§ 4. *Machinery of Negotiation and Conciliation*

One of the most important features of the relations between the co-operative movement and its employees is the machinery of negotiation to determine working conditions and to settle disputes. For

purposes of collective bargaining, retail societies are affiliated to Hours and Wages Boards, organized on a district basis. The grouping coincides with the district associations of the Co-operative Union,[1] with a proviso that a society in one district may affiliate to a Board for another district where the Boards concerned are satisfied that such a step is desirable. The constitution of each District Board is determined by the societies themselves, but is generally on a basis of one representative from each society, together with experienced representatives of the District Associations and Sectional Boards of the Co-operative Union. District Hours and Wages Boards are federated on a sectional basis, one representative from each District is appointed to the Sectional Hours and Wages Council, one of the members of which also serves as sectional representative on the Labour Department of the Co-operative Union.

It was intended in the constitution of the Hours and Wages Board system, originally drafted in 1920 and amended in 1922, that a National Council should be established, but it has not yet been possible to secure national agreements, and this body has therefore not come into being. There is, as will be seen later, a great deal of local variation in the negotiation of working conditions, and local autonomy is as jealously guarded in this as in other co-operative matters. Where national discussion or negotiation has been desirable, the Labour Department Committee of the Co-operative Union has functioned as a co-ordinating body. It has only advisory powers.

The Hours and Wages Boards are voluntary bodies established for defensive purposes. They constitute, in fact, an employers' organization. They began to develop in various districts towards the end of the War as a result of the labour difficulties then arising.

Although voluntary, the membership of the Boards covers societies employing the great majority of co-operative workers, with the exception of the wholesale societies, which have not affiliated. The latter consider the machinery is not adapted to their needs, and have negotiated separate agreements with the appropriate trade unions for workers not covered by existing agreements. Fig. 34 shows the extent to which retail societies are affiliated to Hours and Wages Boards, but it must be remembered that other societies do, in practice, observe the rates and hours agreed upon although not bound by agreement to do so.

[1] See page 204.

The 447 societies not affiliated to Hours and Wages Boards are not necessarily paying less wages than the rates negotiated by the Boards, nor working a longer week. Many have refused to affiliate because their wages are higher than the agreed rates. Others accept the Boards' agreements but reserve the right to modify them if they consider it necessary. Only a very small proportion of the employees are working under conditions below the agreed standards.

The Sectional Councils are the bodies mainly responsible for the

FIG. 34

PROPORTION OF RETAIL SOCIETIES BELONGING TO CO-OPERATIVE HOURS AND WAGES BOARDS

1935

Section	Number of Districts		Number of Retail Societies		Number of Employees of Retail Societies	
	With Hours and Wages Boards	Without Hours and Wages Boards	Affiliated to Hours and Wages Boards	Not Affiliated	Affiliated	Not Affiliated
Midland	9	1	81	60	25,681	2,129
Northern ..	7	—	83	27	13,749	1,271
North-eastern ..	6	—	109	45	21,465	1,505
North-western ..	11	—	130	83	26,224	8,824
Scottish	11	—	141	86	22,762	13,299
Southern ..	8	2	55	60	38,082	8,988
South-western ..	2	2	16	66	3,003	6,013
Western	4	—	48	20	4,562	1,272
	58	5	663	447	155,528	43,301

negotiation of agreements, although in the Scottish and North-western Sections there are also some separate district agreements. The scope and effectiveness of the machinery vary considerably. Generally, the Boards tend to be most active and strongest where Trade Unionism has been most active within the movement, as in the case of the North-western section. There is not necessarily any similarity between the agreements arrived at by the various Councils. Every section has an agreement with the N.U.D.A.W., but some sections have, in addition, agreements with the Shop Assistants' Union

and also agreements covering butchers, bakers, tailors, boot repairers and other productive workers.

The Hours and Wages Boards have functioned fairly successfully. Their existence has checked the guerilla warfare which the principal union of co-operative employees was able to wage against individual societies. By tying societies together in a collective agreement, it is quite possible that they have also prevented exploitation of individual societies by employees. It is significant that one of the difficulties experienced has been a tendency for individual societies to break away from the agreements and the Boards in order to pay higher rates or give better conditions. The Co-operative Union has opposed the establishment by individual societies of rates higher than those covered by the agreements, on the ground that they involve a weakening of collective power.

The Hours and Wages Boards' machinery makes no provision for conciliation and it will be obvious that, failing such provision, the result of their establishment might well be the extension and intensification of such disputes as were allowed to develop beyond the stage of more or less amicable negotiation. Such cases actually occurred until, in 1926, the National Conciliation Board was established and greatly strengthened the machinery of collective negotiation.

The National Conciliation Board operates in the case of any dispute which has not been settled by methods of collective bargaining. It consists of six co-operators, six trade unionists and an independent chairman, all appointed from previously compiled panels of suitable persons. The panel of chairmen consists of Professors G. W. Daniels, H. J. Laski, F. Tillyard, and C. Doughty, K.C. Any dispute must be referred to the Board within seven days of the breakdown in negotiations, and the Board must then meet within fourteen days. No strike or lockout may be declared before such a reference has been made and the matter discussed by the Board.

The Board may arrive at a decision in three ways: first, by a unanimous vote; second, by a majority vote of the twelve representatives if the parties agree beforehand to accept that decision; third, if neither of the two previous ways is possible, by the chairman acting as arbitrator, if the parties to the dispute consent and agree beforehand to accept his decision. The Board has had considerable success. The wholesale societies are, however, not covered by this machinery.

That the Conciliation Board is of vital importance to the movement is quite obvious. For instance, in 1933, cases were settled by the Board affecting approximately 46,000 workers; cases which were not settled during the period affected only 250 workers. In 1935, agreement was reached in thirteen disputes, six were referred back for negotiation, and in nine cases no decision was reached. Nowhere else in the distributive trades is there to be found machinery of this type, and nowhere else are questions of wages, hours and conditions of working subject to such comprehensive machinery of negotiation.

§ 5. *Employees' Councils*

The theory that workers should have some share in the government of the concern for which they worked has persisted in spite of fluctuations with economic circumstances, and has found expression in efforts to establish joint advisory councils of employees and management committees. These efforts were a genuine attempt to enlist the interest of the employees in the working of their society, to take advantage of their practical experience, to promote smoother working, and to avoid minor disputes over matters of internal policy; but they failed.

The following Congress resolution of 1924 gave expression to one aspect of this question:[1] "That the time has arrived when the co-operative movement should seriously consider the question of how far the worker should have control of industry, and what share he should be given in the management"; and a further resolution in 1925 strongly recommended the establishment of joint councils. The result of an enquiry undertaken by the Labour Department of the Co-operative Union in May 1931 into the thirty or forty societies which had established councils, revealed a cleavage of opinion among societies as to their value. The general feeling seems to be summarized in this comment by one society; "After a few months the ideas and suggestions made by the workers' side were naturally exhausted, and thereafter—as must always in our opinion arise—it became evident that as actual executive authority must always rest with the committee of management acting through officials, the body could never be more than advisory and its scope consequently limited. The employees'

[1] *Co-operative Congress Report*, 1924.

side were the first to realize this, and the council died a natural death. It had very little to do after the first onset."

In January 1933, forty-two retail societies with 30,975 employees had joint advisory councils in operation, although some of these were not meeting regularly; moreover, a number of societies that formerly had councils had disbanded them. A recent effort (1936) by the London Co-operative Society to establish a joint advisory council failed owing to apathy or mistrust on the part of the employees.

It may be there was something more significant than at first appeared in the refusal of the workers to respond with great enthusiasm to the call for the joint advisory council. There are some in the movement who find in the general apathy towards this type of organization a pointer towards other and more direct methods of control on the part of the workers. Thus the Labour Department Report for 1933 said: "It is perhaps significant that the policy of direct representation of employees on management committees grows as the joint council idea seems to recede—our own view is that its success in actual practice is largely a personal or a trade union triumph, and that it can never take the place of the *esprit de corps* inherent in the joint council."[1]

With the failure of joint advisory councils, the question of direct employee representation on co-operative committees certainly assumes a greater significance. It is important to distinguish between the right of employees as members to be elected to the committee of management, and the right of employees to elect a limited number of committee members from an employees' panel. The number of societies which allow employees to appoint *representatives* to their committees, according to the Co-operative Union's record, is very small indeed. As regards employees being elected as members, the Co-operative Union states that, as far as their records show, there are approximately 100 retail societies, including most of the larger societies, which permit employees to seek election to the management committee, and in sixty of these societies one or more employees are at present serving on the management committee.

The problem really divides into two distinct parts. In the first place, there is the question of the position of employees as members and how their peculiar relationship can be reconciled with the needs and present weaknesses of a democratically controlled organization.

[1] *Co-operative Congress Report*, 1933, p. 38.

This has already been discussed in Chapters 15 to 20. Secondly, the issue involves the whole question of the control of industry. The idea of workers' control is prominent in the minds of many trade unionists and socialists. A recent publication of the National Union of Shop Assistants gave expression to the view that, in a future organization of society, control of the co-operative movement would and should be taken over by the employees. Such expressions need not, perhaps, be taken too seriously, but they cannot be ignored completely. With the development of the co-operative movement as a consumers' organization, it appears inevitable that there should be an alignment of forces *vis-a-vis* the employees. There is a growing cleavage of principles which must result, not necessarily in any modification of the conditions now afforded by the movement to its employees, but in a considerable modification of its attitude towards trade unionism, and particularly towards those unions in which co-operative employees are largely concentrated. Whereas the early co-operative movement visualized its relations with trade unions being discussed round the table, the fact is emerging and becoming recognized that such discussions must take place from opposite sides.

§ 6. *Relations with Trade Unions*

To understand the present relations between co-operative societies and their employees' trade unions it is necessary to look at their historical development. For many years, labour disputes in the co-operative movement were almost completely unknown. There was little organization among co-operative employees, and the only negotiating machinery was a joint committee of trade unionists and co-operators, consisting of four members of the United Board of the Co-operative Union and four members of the General Council of the T.U.C. This body existed for over thirty years, outlived its usefulness, and perished during the War. In the meantime, there had sprung up the Amalgamated Union of Co-operative Employees, formed by amalgamation of local associations of co-operative employees. The A.U.C.E., which included all categories of employees, including those in managerial posts, did not at first bargain as an independent body; it tried to improve conditions for the workers by presenting its case at District and Sectional conferences and the Annual Congress of the movement.

It was in 1903 that the A.U.C.E. first began, in conjunction with the Women's Guilds, an agitation for a "living wage" for co-operative employees. Pursuing their method of internal persuasion, they were successful in 1908 in getting the annual Congress to pass a resolution adopting the principle and commissioning the working out of a scale by a joint committee of the United Board and the T.U.C. This Committee, however, broke down, for its suggestions were not carried into effect by the societies. It was at this point that the A.U.C.E. became, for the first time, a militant union, and in 1911 a strike fund was established. In 1919 it amalgamated with the National Union of Warehouse and General Workers to become the National Union of Distributive and Allied Workers.

It may appear strange that, while trade unionism within the movement was becoming more militant, the movement was itself encouraging its employees to join unions. Yet this undoubtedly was so, and may be attributed partly to a desire on the part of politically conscious co-operators to encourage another branch of the working-class front, partly to the large proportion of trade unionists in societies' quarterly meetings and committees, and partly to a desire to realize to the full the advantage of collective negotiation.

It is certainly true to say that co-operative societies give active encouragement to trade unionism. Apart from one or two isolated examples, where the memory of some dispute still governs the minds of the committee, it is customary to stress the desirability of trade union membership, and facilities are given for meetings and the collection of subscriptions. Many societies insist that all their employees shall be trade unionists; and the C.W.S. has had such a rule since 1919. The number of societies which have adopted this rule is considerable, and includes many of the larger retail societies. Probably more than 90 per cent. of eligible employees are members of trade unions. Unionism is weakest in the rural areas of the Southern and South-western sections, and of Mid and North Wales.

Whether employees appreciate, oppose, or are indifferent to such encouragement on the part of their employers is by no means certain. In 1934 the percentage of N.U.D.A.W. members whose contributions were in arrears amounted to 23·7; this was a considerable improvement on 1930 when the figure reached 35·7. In view of the comparatively small ratio of unemployment, and the good and regular wages enjoyed by N.U.D.A.W. members, the high percentage of arrears

may be significant. It may, on the other hand, be merely an expression of indifference towards an organization which has required little effort to establish, and whose activities, in the interests of many of its members, have rarely been directly needed.

It is difficult, if not impossible, to arrive at the numbers of workers in the distributive trades outside the co-operative movement who are members of trade unions, as they are spread over a great number of

FIG. 35

NUMBER OF DISTRIBUTIVE WORKERS ENROLLED IN THE PRINCIPAL TRADE UNIONS FOR 1921 AND 1931

Union	1921 *Membership*	1931 *Membership*	*Proportion of Co-operative Employees in Total Membership* 1931
			Per cent
National Union of Distributive and Allied Workers	104,746	119,623	94
National Amalgamated Union of Shop Assistants, Warehousemen, and Clerks	46,713	42,629	54
Amalgamated Union of Operative Bakers, etc.	16,000	13,944	33
Journeymen Butchers' Federation ..	12,462	3,593	Not ascertained
National Union of Co-operative Officials	3,200	5,087	100
National Union of Co-operative Insurance Officials	—	741	100
	183,121	185,617	

unions, both on a craft and on an industrial basis. They do not form such compact groups as those in, say, the boot and shoe industry, and those in the railway industry.

The memberships of the main unions catering for distributive workers in 1921 and 1931, according to the report of the Registrar of Friendly Societies, are shown in Fig. 35.

Some workers engaged in the distributive trades are enrolled in the General and Municipal Workers' Union, the Transport and General Workers' Union and the National Union of Clerks and Administrative Workers; the total numbers are not known, but they cannot be large, probably less than 20,000 in all. It is clear from

these figures that trade union membership, in the distributive trades outside the co-operative movement, is so small as to be wholly ineffective in the determination of working conditions.

Trade unionists in the co-operative movement may be divided into two main groups, those who are members of craft unions and those who are members of industrial unions. Among the 60,000 productive workers of the wholesale societies, craft unions are by no means unimportant. But co-operative membership generally forms only a comparatively small proportion of the membership of such unions, and there has been little tendency to negotiate special agreements with co-operative employers. Generally speaking, the policy of the movement has been to pay at least trade union rates of wages and to grant at least trade union conditions, and this policy is accepted by the unions concerned.

The N.U.D.A.W. occupies a dominating position in co-operative employment. Its influence is to some extent weakened by the presence of three rival organizations, the National Union of Shop Assistants, the National Union of Clerks, and the Municipal and General Workers' Union. These organizations compete with N.U.D.A.W. for members, the two former among shop assistants and clerical workers in both the wholesale and retail societies, and the latter more among the ranks of unorganized productive and manual workers. The National Union of Shop Assistants has about 25,000 members in co-operative service.

It may be pointed out that where co-operative societies insist upon, or encourage, trade union membership, it is not customary to specify any particular union. The C.W.S., for example, merely indicates that membership must be of the "appropriate" union, without defining the term further. The definition of the appropriate union is decided by the General Council of the T.U.C., to which the C.W.S. refers all disputes on this question. Where a union is specified, it is generally the appropriate craft union—presumably with a view to preventing the formation of an employee "bloc" within a society, and to prevent inter-union rivalry. Nevertheless, such a "bloc" has in practice resulted. The N.U.D.A.W., which secures the majority of co-operative employees for reasons largely historical, has been able to conclude agreements with other unions catering for co-operative workers.

There are both advantages and disadvantages accruing to the movement from its attitudes towards trade unionism. The advantage which is most frequently stressed is the simplification of collective

bargaining. In addition to the conciliation machinery, it is simple for the movement to be able to approach only one union when any problem arises which calls for action over the whole field of employment in the movement. A good example of this was provided by the aftermath of the General Strike in 1926. At that time, the co-operative movement found itself in an extremely invidious position. It was a workers' movement, and yet it was unable to stop its employees from going out on strike. When the strike was over, there was an opportunity for the societies and the trade unions to get together to consider their special circumstances. In the Co-operative Congress report for 1928 there appears the following resolution:

"This Congress, being firmly convinced that it is essential that good relations shall be maintained between the co-operative movement and the trade union movement, regrets that workers employed by co-operative societies were required to cease work during the national strike of 1926, and that in some towns trade union organizations appeared to treat co-operative societies more harshly than they treated capitalistic undertakings trading for private profit.

It affirms its belief that attacks upon co-operative societies must, if successful, injure every section of the working-class movement in Great Britain, and it therefore welcomes the decision of the Co-operative Union and the General Council of the Trades Union Congress to appoint a Joint Committee to formulate proposals intended to promote closer harmony between the two movements and to prevent the repetition of events which occurred during the national strike of 1926."

In conformity with this resolution, representatives of the movement met representatives of the T.U.C., and a joint sub-committee was appointed to go into the matters in detail in order to find points of common agreement. Subsequently the sub-committee unanimously recommended to their respective organizations "that the principle is accepted, that the relations between the trade union movement and the co-operative movement, with regard to questions arising on the terms and conditions of employment, must be based upon a different policy to that ordinarily applied to the private capitalist undertakings, so far as strikes and lock-outs are concerned. Provided that the co-operative societies are recognizing and applying recognized trade union rates of wages, hours and working conditions, they shall be immune from strikes and lock-outs in respect of such matters."

From the point of view of the union itself, it is obviously a great advantage to have its members concentrated under one set of employers. The expense of canvassing for new members and collecting subscriptions tends to be reduced to a minimum; the local union organization is strengthened by the fact that the local employers are easily available; and with membership compulsory over such a wide area in the movement, a steady income to trade union funds is assured.

The disadvantages of the industrial type of union in the movement are fairly obvious. The most important is that an industrial union, concerned mainly with a special form of enterprise, would be inclined to condemn the conditions which are existing in its own province and not to see the conditions which exist outside of its province very clearly. This seems to be happening now in the co-operative movement. The N.U.D.A.W. has confined itself so much to the movement that it has fallen into the danger of neglecting conditions outside. The object of a trade union should surely be to get the best conditions that it can for its members, but it should also endeavour to widen its membership with a view to levelling up conditions for all workers engaged in its field of activity. The N.U.D.A.W., partly because it has tried to cover too wide a field of employment within the co-operative movement, partly because of the very great difficulty of organizing the small and scattered units in the distributive trades, has fallen into the danger of aligning itself, not against employers in general, but against the co-operative movement in particular. This becomes clear from a study of the attitude of the union in its dealings with co-operative societies during the last few years. It has tended to change its stand from an acceptance of co-operative conditions as being better than those existing outside, to the point of view that co-operative conditions are not so good as they ought to be.

The N.U.D.A.W. holds that, despite the general superiority of co-operative wages and conditions, they are not superior to the standards of the best capitalist employers, nor are they as much as the movement generally could afford to pay. The co-operative societies argue that the trade unions spend their time wrangling over trivial points of difference when they are faced with the fact that only about 10 per cent. of the workers in the industry are organized. Thus, a meeting between the Co-operative Union Executive and the three chief trade unions, i.e. the N.U.D.A.W., the Shop Assistants' Union, and the Clerks' Union, led to the comment by the co-operative

representatives that "the meeting added nothing to the smoother working of the conciliation machinery, and if it left a feeling on the co-operative side that the complaints were somewhat trivial, when set beside the lack of trade union organization among their competitors and the treatment meted out to trade unions by them, such feeling could well be justified."[1]

It may be added that the growth of this tendency, coupled with the experience of 1926, has led to a hardening of co-operative opinion against the present type of trade union organization in the movement. Nevertheless, the attitude outlined at the beginning of this section still prevails, and it is certain that the movement would not consciously approve of any action likely to antagonize trade unionism or to discourage trade union activity.

[1] *Co-operative Congress Report*, 1934, p. 39.

Chapter 22

THE EFFICIENCY OF CO-OPERATIVE RETAIL DISTRIBUTION

§ 1. *The Plan of Co-operative Retail Distribution*

No part of our present industrial organization has received more severe criticism than the distributive system. Not only socialists but also scientists, engineers and other technicians, are constantly urging that the problem of production has been solved, but that the organization of distribution stands in the way to prevent the benefits of modern invention reaching the consumer. These critics usually point to the high profits that the middleman takes to himself and that seem to be growing ever taller. A broader line of criticism is that, whatever the reason, prices to the consumer are higher than they need be. Prices to the consumer may be higher than necessary, not because the middleman makes a high profit after deducting his costs, but because his *costs* are higher than necessary. These high costs, in turn, may be due, not necessarily to the middleman's personal inefficiency, but to an excessive number of middlemen or to some other factor in the very nature of the present distributive system, in which a given middleman is but one unit.

The most promising lines of attack on the apparent inefficiency of modern distribution are thus policies for changing the system as a whole. Several such policies of reconstruction have been mooted. The co-operative attack on the problem of distribution at present excludes two such policies recently put forward as a solution; the policy of planning in the sense of planned consumption, and the policy of direct sale in the sense of physically eliminating all retail shops and getting direct contact of producer with consumer.

The co-operative movement does not accept the policy of planned consumption, since it is prepared to cater for the demands of its members, whatever these may be, and does not seek to determine what they shall consume on some "rational" basis such as real need. Individual freedom of choice is preferred to arbitrary authority, however wise. Co-operative distribution is therefore subject to the same small-scale family buying on the part of the consumer, and

exposed to the same risks of anticipating demand erroneously, as is capitalist distribution, except perhaps that its management committees offer a "planned" channel for expressing the demands of members.

Nor does the co-operative movement accept as a principle the direct producer-to-consumer, factory-to-home, solution. The whole movement is based on the shop and the retail and wholesale societies. These are middlemen between consumer and producer; but they are not necessarily middlemen independent of the producer. As explained in Chapter 24, a large part of co-operative retail sales are bought wholesale from the C.W.S. and S.C.W.S., and part again of these sales of the wholesale societies are produced in their own factories; moreover, most retail societies provide personal and property services, and manufacture certain products, such as bread. There is thus organizational integration in co-operative business, but not a belief in the physical elimination of retail and wholesale organs. The effectiveness of such surgical methods in satisfying the consumer is open to grave doubts.[1] House-to-house peddling or mail orders to the producers raise as many costs as they avoid. There is no shop where the consumer can single out exactly what he wants; instead he is either pestered with unwanted callers, or, after choosing from a mere catalogue, has to pay the expense of the transport of goods in small parcels.

Planned consumption and direct factory-to-consumer sale are thus not an integral part of the co-operative plan for distribution. But the fundamental problem of reducing prices to the consumer can be tackled and is being tackled in more ways than these two. Briefly stated, the co-operative plan on the business side is to abolish margins as payments for capital and management, and, partly by attracting customers through dividend on purchase, partly by eliminating competition inside the whole movement, to reduce costs. Since prices are built up of costs and margins, the reduction of costs and abolition of certain margins must inevitably bring down prices.

The abolition of margins as payment for capital and management is effected by the co-operative device of paying variable dividends on purchase but fixed interest on capital and fixed salaries for management, instead of the capitalist device of paying variable dividends on joint stock capital, or variable profits on the capital and management

[1] See Braithwaite and Dobbs, *The Distribution of Consumable Goods*, Chapters x and xi.

of the independent entrepreneur. This dividend on purchase and its attractive power to customers is in the very forefront of co-operative policy and has already been described.[1] But the elimination of competi-

FIG. 36

TRADE OF CO-OPERATIVE AND ALL RETAIL ORGANIZATIONS ACCORDING TO THE NUMBER OF THEIR BRANCHES

	Unit Shops	Multiple Shops		Department Shops
		2–5 Branches	Over 5 Branches	
Co-operative Societies (Great Britain, 1932):				
Number of Societies ..	289	414	426	—
Sales (£000,000)	4·5	21·6	172·2	—
Percentage of Total Sales	2·3	10·9	86·8	
*Non-Co-operative Shops (Great Britain, estimate for 1930):**				
Number of Shops ..	600,000†	30,000		1,000
Sales (£000,000)	1,000	300		150
Percentage of Total Sales	69·0	20·7		10·3
U.S.A. (Census of 1930):				
Number of Shops ..	1,228,450	64,498	142,640	4,221‡
Sales ($000,000)	28,842	3,838	8,525	4,350‡
Percentage of Total Sales	63·3	8·4	18·7	9·6‡

* See Braithwaite and Dobbs, *Distribution of Consumable Goods*, p. 238.

† Upper limit of estimate.

‡ Department shops included either in Unit or Multiple Shops have been subtracted from these categories and here separately stated.

tion inside co-operative retail trade is less well known. It has taken place gradually and unobtrusively through the amalgamation of societies and the opening of additional branches.[2] The resultant position is shown in Fig. 36, which compares the percentage of co-operative and of total trade done by organizations with one, a

[1] See Chapter 5.

[2] See page 63 for growth in membership of the average society.

few, or many branches. It will be seen that while the bulk of total retail trade is done by unit, single-branch shops both in Great Britain (69 per cent.) and America (63·3 per cent.), the bulk of co-operative trade (86·8 per cent.) is done by societies with more than five branches.

As far as the bulk of co-operative retail trade is concerned, this is conducted by an aggregate of large-scale organizations each owning at least six shops; co-operative retailing is, in fact, mainly of multiple shop or chain store type. Furthermore, this aggregate is more or less systematized. Unlike the non-co-operative multi-shop organization, there is usually no competition from within. While the non-co-operative multi-shop organizations may be national or regional in area, the co-operative multi-shop societies operate only locally, and each co-operative multi-shop society has, with certain exceptions, a defined area within which it is immune from competition by other co-operative multi-shop societies.[1] There is also the unifying influence of the two wholesale societies.

The progress of co-operative retailing is probably due partly to its large-scale features. A special statistical enquiry analysing the costs and profits of a hundred co-operative societies in 1932[2] has shown that in the grocery department (forming over half of co-operative trade) operating costs tend on the whole to be less and net margins or surplus to be higher, the larger the branches or shops of the society.

[1] See Chapter 3.

[2] The societies selected all kept departmental records and were distributed as evenly as possible over geographical districts in England and Scotland, though more attention was paid to the Southern and Midland Societies charging market prices. The societies were of different representative sizes.

It is hoped that a memorandum embodying the full results of this enquiry will be published shortly under the auspices of the Co-operative Union. The summary of results is as follows: In the grocery department the positive results were that the operating costs tend on the whole to be less and the net margins or surplus to be higher the larger the branches of the society, but not necessarily the larger the society as measured by numbers of branches or total grocery sales. Merchandise costs, contrary to the experience of non-co-operative firms, showed no tendency to fall for societies of larger size. This unusual result was attributable to the C.W.S. and S.C.W.S. policy of treating all societies and orders alike, large or small, in the matter of rebates.

In the drapery department the most surprising positive result was that operating costs were higher and the net margin or surplus was lower for societies that were larger as measured by their total sales in all departments. This apparently lower efficiency of large societies was probably due to the wide variety of drapery lines, many of them more expensive in retailing, offered by the larger societies. There was, in short, large-scale organization but not large-scale dealing in any one typical drapery line. This spreading of business may partly be a necessary accompaniment of a widening clientele, but obviously requires watching if costs are not to rise unduly.

This tendency runs parallel to similar tendencies in non-co-operative trade, as shown in several American and English enquiries. But the question must now be put, has the co-operative movement anything more to offer on its purely business side than increased efficiency due to mere large-scale organization?

The answer to this question is Yes. In several business features, co-operative trading differs fundamentally from non-co-operative trading, however large-scale, and these lead to a greater efficiency over and beyond that possible to large-scale trading outside the co-operative movement.

These sources of efficiency that co-operative business holds out as against non-co-operative business consist in (*a*) lower cost of merchandise; (*b*) lower operation costs; (*c*) lower costs of finance. The following three sections will compare each of these costs as incurred by co-operative and non-co-operative organization.

§ 2. *Comparative Retail Merchandise Costs*

Merchandise costs, that is, the purchase price of the stock that is to be re-sold at retail, are less to co-operative societies than to non-co-operative firms if these societies trade with either of the wholesale societies.

(1) There is evidence, adduced in Chapter 23, for supposing that the wholesale societies act as more efficient intermediaries between producer and retailer than do capitalist middlemen. Thus, quite apart from the dividend on their purchases, merchandise can often be supplied more cheaply to the co-operative retail societies than capitalist wholesalers can supply capitalist retailers. Certainly the high proportion of merchandise co-operative retailers do buy from the co-operative wholesalers is significant of the advantages thus conferred.[1]

(2) As well as this general economy in the purchasing of merchandise, applying to all retail societies, the smaller societies obtain special advantages. The C.W.S. and the S.C.W.S. have an instruction to managers that the same price be charged to all societies on the same day, irrespective of the size of the order.[2] This policy runs counter to that of most non-co-operative wholesalers or manufacturers supplying direct to retailers. Thus while larger societies giving larger orders may derive no advantage apart from the dividend out of pur-

[1] See Chapter 23, § 1.

[2] See Chapter 7, p. 155.

chase from the wholesale societies as against non-co-operative sources, smaller societies giving smaller orders may obtain a considerable reduction in the cost of merchandise compared to small non-co-operative retailers dealing with ordinary middlemen or manufacturers. This is probably the main reason for the fact that smaller societies buy a greater proportion of their merchandise from the C.W.S. than the larger societies.[1] It may also be the reason for the small effect of size of society upon grocery merchandise costs, noted above in the cost analysis of the hundred co-operative societies. In non-co-operative groceries, the large chain-store firms tend to have lower merchandise costs than the smaller firms. But this is not true of larger and smaller co-operative societies. Larger non-co-operative retailers reduce merchandise cost by giving larger orders to their wholesalers, but the larger co-operative societies obtain no such reduction from the C.W.S. They throw their economic advantage in bulk ordering into the pool out of which smaller societies benefit.

(3) The C.W.S. has set up buying depots in foreign countries through which direct relations can be established with organizations importing foodstuffs and other merchandise into this country. Some reduction in costs is probably effected in this way, as compared with the costs of buying through intermediaries.

(4) The organization of co-operative retailing differs from that of all other retailing in combining the chain-store principle with that of local concentration. In the larger co-operative societies, there is central purchasing for a great number of branches all concentrated close to local headquarters. The relatively costly redistribution in smaller lots after "breaking bulk" is confined to a small area. The larger non-co-operative chain stores, on the other hand, have their branches scattered over a wide—often nation-wide—area. Apart from their strategic position as usually the biggest buyers and distributors *locally*, co-operative societies thus often effect by their "lay-out" a real economy in transport of merchandise to the branch shop.

§ 3. *Comparative Retail Operating Costs*

The gross margin of the retailer is the difference between his sales at retail prices and his purchases at wholesale prices. The net margin of the retailer is the difference between this gross margin and his

[1] See Chapter 7, p. 159.

operating costs. What are these operating costs and why are they incurred?

It is, apparently, not always clear to the critics of distributive margins that there are necessary services performed by retailers for the community which must be paid for by the community. It is true that retailers do not materially change the form of an article; they do not extract, manufacture or build "products"; nevertheless their necessary functions, though perhaps "invisible", are clearly enumerable.[1]

(1) Consumers must be informed of the merchandise that is for sale. This is a necessary service, since it is useless for goods to be made to meet the demands of consumers if consumers do not know where to obtain these goods. Goods must be displayed on counters, on shelves and in shop windows, so that prospective customers may inspect them at their leisure. Advice may be required of shop assistants, and printed information is circulated in advertisements of various sorts. Advertisements may and do go much further than the mere giving of information. They are designed not merely to tell the consumer where his existing demand can be satisfied, but also "to increase that demand by inducing consumers to buy more".[2] This further purpose in advertising is not, of course, necessary and is largely the result of competition.

(2) It is necessary for most goods to be prepared for sale by dividing, sorting, reassembling, grading, cleaning and packing. This preparation, which may be called for short the "handling" function, includes the actual wrapping and handing over the counter by the shop assistant. Handling is the nearest the distributor gets to physically productive functions, and is of varying importance in different trades. In butchery, for instance, there is actual slaughtering, cutting up and weighing; in tailoring and shoe shops, the actual fitting and trying on; while in most grocery and tobacco lines, handling is reduced to a minimum.

(3) It is necessary for goods to be transported by the retail distributor to his shop and, unless he works on the cash and carry plan, delivered from his shop to the consumers' door.

(4) Finally, stocks must be held, and their holding financed. Shops are often called stores, and one of the necessary functions of the shopkeeper is that he holds a store of goods like a reservoir of water

[1] Braithwaite and Dobbs, *The Distribution of Consumable Goods*, Chapter VII.
[2] Op. cit., p. 84.

which customers may tap at a moment's notice. For a given flow of sales, trades with a low rate of turnover of stock must hold a greater reservoir of stock in relation to sales than others. Grocery, for instance, with relatively few, and most of them standard, lines has a higher turnover than drapery or department stores. This holding of stocks involves space, safe keeping and watching. It also requires financing, since the retailer often finds it necessary to borrow in order to buy his stock, repaying the loan out of the proceeds of the sale of that stock; and, in any case, it represents so much capital.

The costs incurred in the performance of these four types of necessary retailing functions involve the factors of labour, capital and land employed directly by the retailer, and also involve payments to outside agencies for specific services.

Wages and salaries must be paid to shop assistants for giving advice and information and for handling the goods, to van-men and errand-boys for transporting, and to watchmen or others involved in the holding of stocks. Interest must be paid on borrowed capital that finances the holding of stocks, the buying of land and the building of shops and warehouses. Rent must be paid for such land and buildings used in holding and displaying stock as are not owned but hired.

Specific services for which outside organizations are usually paid include advertising, insurance of shops and stocks, power (for lighting and heating shops, and for illuminated advertisements), rates and taxes, repairs and replacements (partly met periodically by depreciation) and finally supplies such as boxes and wrappings.[1]

Costs of co-operative and non-co-operative retailing will be compared first under the following heads, some of which (i–iii) are factorial and others (iv–vi) functional. The financial costs will be compared later.

(i) The cost of Labour.
(ii) The cost of Administration.
(iii) The cost of Land.
(iv) The cost of Advertising.
(v) The cost of Credit.
(vi) The cost of Delivery.

[1] Logically those costs of "supplies" should be added to merchandise, but usually are not.

Under each of these cost items, some estimate will be given of a typical percentage which the cost bears to the total sales of co-operative societies. Exact costs that would be typical are not available, since each society adopts its own method of analysis, if it adopts any. This estimate will be based partly on direct knowledge of the cost items involved, partly on cost analysis of non-co-operative firms mainly in the grocery trade, partly on the special analysis of the *total* merchandise and *total* operating costs of a hundred co-operative societies.[1] Each estimate will, with the necessary corrections and allowances, bear some relation to the analogous cost of non-co-operative firms, and the total of the estimates will tally with the total operating cost actually discovered for co-operative societies. Unfortunately there are few British non-co-operative firms for which the detailed information of cost items is available. The evidence from analogy must mainly come from America, where the Harvard Bureau of Business Research has undertaken the cost-analysis of a wide variety of distributive trades, the Federal Trade Commission has recently investigated chain stores of all sorts, and there is a periodic census of distribution. Except in certain particulars, which will be noted later, American conditions in the distributive trades are not as different from British conditions as is usually supposed. The proportion of trade done by unit shops, department shops, and multiple shops, respectively, are much the same, as reference to Fig. 36 will show; nor are the gross margins charged by the same sort of trade so very different in the two countries. It is worth citing the well-ascertained American experience, even if only to form a rough framework for a realistic analysis of costs. The main differences lie not so much between country and country when they are both highly developed commercially, as between trade and trade, and above all between different types of control. The margin of profit of a one-man business must not be compared, for instance, with the margin of profit of a joint stock company; the former is payment for labour, administration and capital, the latter only for capital.[2]

[1] The comparison will, strictly speaking, be confined to the Southern and Midland co-operative societies, since these charge market prices and give low dividends as against the high price and dividend policy of many Northern societies.

[2] Compare Dunlop, "Retail Profit", *Economic Journal*, September 1929, and McNair, "Margins and Profits in Retail Trade in the United States", *Economic Journal*, December 1930

(i) *The Cost of Labour*

The wages and salaries costs of non-co-operative joint stock companies include payment for labour and administration; so do co-operative wages and salaries costs.

The total salaries and wages of workers classed as engaged in distribution is given for the retail co-operative societies in 1932 as £16,396,767; the total sales of these societies was £201,222,000; and the percentage of wage cost to sales therefore appears to be 8·1 per cent. But it must be remembered that a portion of these "sales" are personal services such as hairdressing and undertaking, or property services such as shoe repairs, painting and decorating, laundry, furniture removal and blacksmithing, where there are no distributive workers selling goods belonging to the society. These services cannot account for more than £2,000,000[1] of total sales, leaving at least £199,222,000 as true sales of goods; the wage cost of distribution proper cannot, therefore, be more than 8·2 per cent. of these sales. To this must be added 0·3 per cent. of sales for employers' compulsory contributions to national insurance, making a cost of 8·5 per cent. for labour and administration.

Bearing in mind the predominant position of grocery and food in co-operative trade, and the chain-store character of co-operative trading, the most appropriate non-co-operative wage and salary cost-ratios to set against this 8·5 per cent. are the 10·3 per cent. of the Harvard Bureau enquiry into American chain groceries, and the 10 or 11 per cent. given by Mr. Dobbs for English multiple confectionery stores. But this comparison cloaks differences in the payment for labour and for administration respectively, and those services must be considered separately.

Co-operative societies pay on the average higher wages to assistants and work them shorter hours, as described in Chapter 21; but if sales per seller are also higher, it does not follow that their labour costs per unit of sales are higher. Co-operative statistics are available, but in the absence of any Census of Distribution for Great Britain, the average of national sales effected per seller in different trades cannot be directly obtained. Indirectly, however, by dividing value of sales (estimated from the Census of Production) by the number of proprietors, managers, salesmen and shop assistants actually engaged as sellers

[1] In Fig. 43 the estimate for services is £1,500,000.

(calculated from the Census of Occupations) approximate comparisons, which are worth making, can be made in at least four trades or departments important in co-operative distribution. The relatively small proportion of proprietors or managers of shops who do not actually perform the selling were excluded as far as possible in the calculation of the national sales per seller. Most co-operative non-selling managers are automatically excluded, since the co-operative employees refer to particular departments and not to the supervisory office staff general to all departments. The following is the result of the calculation:

	Sales per Salesman, 1932	
	Co-operative Societies only	*All Retailers Great Britain (approximately)*
	£	£
Grocery	1,822	1,450
Drapery	1,369	1,250
Butchery	1,377	1,550
Footwear	1,712	1,900

The comparison shows a lower sale per seller in co-operative butchery and footwear departments, but a higher sale per seller for the two co-operative departments in which we are particularly interested—a much higher sale per seller in grocery and a somewhat higher sale per seller in drapery branches. It must be remembered, however, what a large part the small and admittedly low sale family shop plays in the total of non-co-operative grocery sales and possibly drapery sales too. The comparison really required is one between sales per salesman in the co-operative shop and in its non-co-operative rival of similar size, for instance, the chain or the department store. The figures available for British department stores, mainly in the drapery trade, show sales per salesman (exclusive of porters, packers and despatch staff) varying in 1932 from £1,057 to £2,211 according to size.[1] In the department stores with largest sales-totals, the sales per salesman are clearly higher than the average sales per salesman in the co-operative drapery trade.

In the absence of exactly comparable statistics of sales per seller, we are thrown back on comparisons of labour cost between co-operative societies and such comparable non-co-operative firms as have been cost-analyzed. The Harvard Bureau distinguishes carefully, in its

[1] Retail Distributors' Association (R.D.A.), 1932.

analyses of pay rolls, between payments for buying and administrative functions and payments for routine labour in shop, warehouse and transport. In the case of chain groceries, out of the total of 10·3 per cent. mentioned above, 1·4 per cent. was paid for executive costs in connection with buying and administration. Labour costs would thus, at the outside, amount to 8·9 per cent. A similar subtraction of administration costs from the estimated co-operative salary and wage costs of 8·5 per cent. would leave a labour cost of 8·1 per cent.[1] Considering that wages and salaries tend to be higher in America than in England, the approximation of the labour costs per unit of sales of the (mainly grocery) co-operative societies and the American grocery chain is remarkable.

(ii) *The Cost of Administration*

It is difficult to assess the precise cost of administration in independent shops where the proprietor may, for part of his time, be "labouring" behind the counter, and where part of his income is payment for the capital he has put into the business. In chain shops, usually controlled by a joint stock company, the manager is not a capitalist, although, since each branch is small, he is probably acting, for part of his time, as a salesman behind the counter. In department stores, however, the manager is probably purely an administrator, since each department of the store usually employs a large number of labouring salesmen.

Administration may be taken to exclude activities that must take place on delivery routes or in the warehouse or in the shop itself, such as floor superintendence or managing of small branches. Administration is thus restricted (*a*) to the work of buyers and purchasing managers; and (*b*) to other brainwork that can be conducted in an office; and, even in this office work, administration excludes routine clerical duties, and is confined to executive functions. Under this somewhat exclusive definition of retail administration, it appears from the researches of the Harvard Bureau that in American chain groceries the cost of administration was 1·4 per cent. of sales in 1929, and in American department stores and specialty stores was in the same year 4 and 4·5 per cent. of sales—of which half or over was paid to buyers. In the R.D.A. enquiry into British department stores, the personal

[1] See (ii) below, administration costs estimated at 0·40 per cent.

cost of administration (here excluding buyers) is given for 1932 as 3·21 per cent.

As against these figures we may calculate the cost of administration in a typical large co-operative society with, say, total sales of £1,800,000 divided between a grocery department with sales of £900,000 and nine other departments with sales of about £100,000 each.[1] The administrative staff would quite probably, in these circumstances, consist of one grocery manager with salary of £600; nine other departmental managers with salaries of £500 each; a General Secretary with salary of £750; an Assistant Secretary and an Accountant each with salaries of £500. The total administrative pay roll would thus amount to £6,850, or some 0·38 per cent., say 0·4 per cent., of the total sales. This percentage is extremely low when compared with the administrative cost ratios of non-co-operative firms that have been given. It must be borne in mind, however, that co-operative departmental managers do their own buying; that much of the higher control, as exercised by the management committee, is entirely unpaid; and that the co-operative movement stands for greater equality of incomes and hence lower remuneration of the higher officials as compared with capitalist organizations.

(iii) *The Cost of Rent*

The cost of rent per sales was shown to depend partly on the holding function, partly on the information function.

If more stocks have to be held for any given amount of sales, more space is required for holding them, and a close correlation can be found between the rate of turnover of stock and the rent cost. The faster the turnover, i.e. the higher the ratio of sales over stock, the lower the rent cost per sales, and vice versa. This correlation can be established for the trades in which co-operative societies chiefly engage, by reference to the U.S. Census of Distribution. Milk appears to have the highest rate of stock turn, the stock of milk dealers being turned over, according to the U.S. Census of Distribution, some 140 times per year.[2] This trade is in a class by itself; but class two in stock turn includes butchery (50 times) and bakery (32 times). In class three may be placed coal (15 times) and grocery (13 times). In class

[1] These figures are based on a survey of twenty-two of the largest English co-operative societies in 1931.

[2] The figures are obtained by dividing sales by stock. The U.S. Census values stock at cost, i.e. wholesale prices.

four, the slowest turners, are apparel (tailoring and boots and shoes) and furnishing (both 5 times), and drapery or "dry goods" (3 times). The cost of rent per sales was also obtained by the U.S. Census for the same trades, and the classes were roughly the same. Milk dealers had the very low rent cost of 0·83 per cent. of sales; apparel, furnishing and drapery, high rent costs of 7·06, 4·6 and 4·68 per cent. respectively.[1] Midway came coal and grocery with rent costs of 1·35 and 2·84 per cent.[2] Bakery and butchery involve some productive activities and therefore additional room with consequently higher rent costs (6·18 and 3·08 per cent.) than their low stock turnover would suggest. In general, however, it appears safe to assume that high stock turnover is associated with a low rent cost per unit of sales.

The rate of stock turn appears to be high in co-operative trade when compared with similar non-co-operative trades. Accounts for the distributive societies in the United Kingdom give, for 1933, sales as £197,257,000; stocks as £17,362,000; yielding a stock turn of 11·4.[3] These sales and stocks are composed of the sales and stocks of the different trades or departments in various proportions, but if similar trades are taken in roughly the same proportion, it appears that in 1930 the American stock turn was 10·2 when reckoning sales at retail and stock at cost (i.e. wholesale) prices, as the co-operative societies do. This rate of stock turn is corroborated by the Federal Trade Commission enquiry into chain stores, when allowance is made for their valuation of sales at wholesale prices. This enquiry also demonstrates the stability of rates of stock turn over the years 1927 to 1930. A similar stability is shown in the Harvard Bureau's stock turns of department stores from 1925 to 1929. Except for butchery and bakery, where American reliance on large-scale centralized production makes stocks less perishable and therefore slower to turn, it does not appear from the fragmentary English enquiries that stock turns, in those trades which are carried on by co-operative

[1] Cp. the Harvard Bureau Department and Speciality Store percentage of 3·0 to 4·8 per cent. below.

[2] Cp. the Harvard Bureau Grocery percentage of 1·3 and 2·3 per cent. above.

[3] The stock of retail co-operative societies that engage in production would include raw materials and semi-finished goods which, if anything, would lower the rate of stock turn unduly. Taking retail departments separately, the hundred cost-analysed co-operative societies show an average (median) stock turn of 15·84 for grocery, 3·66 for drapery. This compares with stock turns of 13 for grocery and 2·7 for dry goods in the U.S. Census of 1930.

retailers in England, are generally any higher than in America.[1] If anything, they are lower. It may thus be concluded that co-operative trading has a faster turnover than non-co-operative trading in this country and, on that head, incurs a lower rent cost.

Rent also depends upon the information function. To inform customers of what they sell, shops must be placed in frequented and accessible central sites, for which other shops, and offices and hotels, will also be competing. The price of the land, i.e. the rent, will therefore tend to be high. Competing for central sites is the policy of non-co-operative department stores and some chain shops. It is not the policy of most independent unit shops, since the majority of these are small and include many catering for the very poor in slum areas.[2] This is the reason, probably, why the Harvard Bureau found the rent cost of independent grocers lower than that of chain groceries, 1·3 per cent. as against 2·3 per cent.; and, together with their lower stock turn, it is probably also the reason for the comparatively high rent cost of department and speciality stores, which the Harvard Bureau found to be 3 to 4·8 per cent. in America. In British department stores the cost of "occupancy" is given by the R.D.A. for 1932 as high as 5·73 per cent.; but this includes maintenance and depreciation, and only 3·31 per cent. was strictly due to rent and rates. For most of their shops, co-operative societies, like independent traders, do not seek the more expensive sites. They rely on their members seeking branches out even though they are not in the principal thoroughfares. An exception to this rule, however, is the central premises of the largest societies that are often placed in "department store sites".

Thus, in theory, the co-operative rent cost per sales is likely to be lower than that of non-co-operative department stores, both on account of the higher stock turn, i.e. lower holding of stock in relation to sales, and on account of the generally less central sites. But the co-operative rent cost is not so likely to be less than that of independent grocers or even of chain stores that have no centralized premises.

In actual practice it is difficult to establish a precise percentage of

[1] See Dunlop, "Retailing Profit", *Economic Journal*, September 1929.

[2] To judge from the Census of Occupations, about half the 600,000 non-co-operative unit shops in Great Britain given in Fig. 36 had a "Proprietor or Manager" who was "a worker on his own account", that is, employed no assistants whatever. Many further shops would presumably employ only one assistant.

rent cost of sales, since most co-operative societies own their shops. The annual cost of the land and buildings is in that case represented by the interest on the purchase price, which may in many cases have been rapidly written off by a policy of high depreciation charges. In Fig. 39, all the co-operative operating costs, such as rent, are so estimated as to add up to the same figure as the total of operating costs actually found in the enquiry into a hundred societies.[1] Thus only the actual rent paid in practice and not the economic rent that premises are worth is entered in the table. It was found in 1933, that the payment to rates by a typical number of societies in England and Wales was £1,380,000 per annum, the sales of those societies being £150,503,000. This gives the cost of rates as 0·9 per cent. of sales. From samples examined it would appear that *actual payments* to rent and rates average about 1·5 per cent. of sales.

(iv) *The Cost of Advertising*

If the rent cost is lower in co-operative than in non-co-operative retailing, owing partly to the possibility of economy in the information function, this information economy is yet more obvious in the lower direct costs of advertising by co-operative shops. British department stores, according to the R.D.A. survey, spent as much as 3·02 per cent. of sales in 1932 upon publicity, of which 2·64 per cent. is due to general advertising, including some items probably not separately charged to advertising in other businesses. American department stores, according to the Harvard Bureau, spent upon advertising from 2·4 to 3·4 per cent. and American speciality stores from 3·1 to 4 per cent., the larger the size of business the larger being the percentage.

Co-operative societies do not spend so much on advertising, since the loyalty of members is relied upon to ensure custom, and competition is less intense. Except in a few disputed territories, there is no competition between the several co-operative societies, as there is between the several chains of stores or between department stores. Co-operative societies may be estimated to spend not only far less than department stores, but even considerably less than the independent or chain stores grocers, whose percentage of sales spent on advertising was found even in America to be as low as 0·35 and

[1] See above, p. 360. The total of operating costs actually used is that for twenty-five representative Southern and Midland societies.

0·75 per cent. respectively. Probably 0·2 per cent. of sales would amply cover co-operative advertising.

(v) *The Cost of Credit*

A further, minor, economy of co-operative, as compared with some non-co-operative, organizations, is the smaller cost (mainly in interest) of the extension of credit, and the smaller cost of the actual collection of debts and of the possible loss by bad debts that cannot be collected at all. Though there has always been some departure from the cash principle, the bulk of co-operative trading is still for cash, as contrasted with most capitalist independent shops and department stores, where credit is allowed.[1] The Harvard Bureau found bad debts to be as much as 0·4 and 0·35 per cent. of sales for independent grocers (in 1924) and for department and speciality stores (in 1928) respectively. British, though apparently not all American, capitalist chain stores, on the other hand, usually adopt the cash principle; so that co-operative societies probably do not score any advantage on this head over the multiple stores.[2] According to the Harvard Bureau, bad debts appear to be a negligible cost for chain groceries, and this may be taken as fairly true of co-operative stores also. The cost of bad debts may be estimated at the outside as not more than 0·1 per cent. of sales.

(vi) *The Cost of Delivery*

Usually associated with the cash principle is the carry principle. Here again the co-operative societies are departing from their original practice and giving a service in place of striving for this particular economy. Delivery costs are partly included in labour costs (e.g. wages of vanmen), partly in costs connected with delivery equipment. Apart from interest on capital invested, these include depreciation and repairs of vehicles, and the cost of fuel, oil, and tyres for motors, or, alternatively, horse-feed. The Harvard Bureau found non-wage delivery costs to be as high as 1·2 per cent. of total sales for independent grocers in 1924 and to vary from 0·4 to 0·6 per cent. for department and speciality (drapery) stores. The R.D.A. gives 2·34 per cent. of total sales as the cost of despatch (including packing and parcel postage) of British department stores in 1932, of which 1·34 per cent. was impersonal, i.e. not part of the wage cost.

[1] See Chapter 5, § 3. [2] See American Census of Distribution, 1931, Table 5A.

For British co-operative societies, delivery costs are undoubtedly higher than for American chain stores, where they are confined to trucking at 0·4 per cent. of sales but are probably considerably lower than for independent grocers or department stores. They will be high where goods are sold on rounds, as in the milk and coal trade, often included in the co-operative grocery departments. In estimating this expense, we can make use of statistics of value of services that include transport, and put the cost (exclusive of the wages of personnel engaged in delivery) as perhaps 0·9 per cent. of co-operative sales.

Summary of Estimates of Items Composing Operating Costs

None of the other costs incidental to the operation of a retail store seems likely to be reducible by co-operative organization. They are mostly technical necessities unaffected by different methods of control. They may be briefly enumerated with their percentage cost to total sales as found by the Harvard Bureau in the two types of organization most nearly akin technically to co-operative trade, namely (*a*) independent grocers (in 1924), and (*b*) grocery chain stores (in 1929):

	Percentage Cost to Unit of Sales	
	(*a*)	(*b*)
(1) Boxes and Wrappings; Supplies	0·80	0·75
(2) Heat, Light, Power, Water, Refrigeration	0·30	0·75
(3) Depreciation and Repair of Shop Equipment ..	0·45	0·75
(4) Insurance	0·20	0·20
Total of Supplies, Maintenance and Depreciation ..	1·75	2·45

A further set of miscellaneous items are given by the Harvard Bureau amounting, with taxes and licences, to 1 per cent. of sales of independent groceries and 1·25 per cent. of sales of chain groceries. These may be neglected for co-operative societies since, to quote the Bureau, "they probably are attributable to differences in the book-keeping classification in use by the grocers who assisted in this survey, and to consequent difficulty encountered in filling out the profit and loss blanks."[1]

All that need be added, then, to get a complete estimate of operating costs of co-operative retailers is some percentage to include supplies, maintenance and depreciation. Refrigeration and heating need not be

[1] Bulletin No. 52, p. 47.

so costly as in America, and we may estimate an inclusive cost of about 1·6 per cent., just below the lower of the two Harvard totals. Adding unallocated and miscellaneous costs, the estimates of all item operating costs without and with interest (left for discussion in the

FIG. 37

SUMMARY AND COMPARISON OF ITEM OPERATING COSTS

Costs	Estimate for Co-operative Retail Societies (mainly Grocery, 1932)	Harvard Bureau Bulletins	
		Independent Shops (Grocery, 1924)	Chain Stores (Grocery, 1929)
	Per cent.	Per cent.	Per cent.
(1) Labour	8·10 } 8·50	} 10·90	8·90 } 10·30
(2) Administration	0·40 }		1·40 }
(3) Rent (Annual Cost, Land and Buildings) ..	1·50*	1·30	2·30
(4) Advertising	0·20	0·35	0·75
(5) Bad Debts	0·10	0·40	—
(6) Delivery (exclusive of wage)	0·90	1·20	0·40†
(7) Supplies maintenance and Depreciation	1·60	1·75	2·45
(8) Unallocated and Miscellaneous	—	1·00	1·25
Total of items 1–8 ..	12·80	16·90	17·45
Add Interest	1·10	1·10	0·75
Total Operating Cost	13·90	18·00	18·20

* Includes Rates (0·90 per cent.), but excludes interest on purchase price of premises.

† "Trucking."

following section[1]) are tabulated (Fig. 37) as a percentage of total sales and compared with similar percentages in the non-co-operative grocery trades.

To sum up. Co-operative retail organization appears to effect economies as against *all* capitalist organization on the score of

[1] Q.v. for precise calculation of the interest rate.

administration and advertising; as against independent capitalist shop-keepers and department stores (but not chain stores) on the score of collections of debt and delivery; and as against department stores on the score of rent.

What is probably the most important co-operative economy of all, however, has not yet been discussed. It is the reduction in the cost of finance. There are technical difficulties in comparing co-operative against capitalist costs of finance, due to the fact that, in capitalist organizations, only part of the real finance costs are accounted as operating costs. A large part of the capital is provided either by the proprietor-entrepreneur (e.g. of independent shops) or by appealing (in the case of joint stock companies) to outside investors to take ordinary shares. In either case the prospect of a high rate of "profit" or "dividend" on capital is required to tempt the entrepreneur or the shareholders to risk their wealth. This profit or dividend is not accounted as part of the operating cost, but is included, with "reserves", in the net margin. An attempt will be made in the next section to make a true comparison of co-operative and capitalist costs of finance, in spite of the technical difficulties.

Meanwhile, taking *total* operating costs at their face value, Fig. 38 sets out the percentage ratio to sales of total operating costs, as well as of total merchandise costs, obtained from comprehensive enquiries. Our discussion has shown the necessity, owing to wide variation in rent, holding and advertising costs, for comparing similar trades; and in Fig. 38 two particular trades, grocery and drapery, are selected as the most important in co-operative trading.

The average of the total operating costs found by various enquiries in grocery and drapery (e.g. department stores) trades are summarized in the second column of figures. In the grocery trade, the special enquiry into British co-operative societies disclosed a distinctly lower operating cost of 12·78 per cent. (or 13·89 per cent. for Midland and Southern areas only) as against 18 and 18·2 per cent.[1] found by the Harvard Bureau, and 16·2 and 18·48 per cent. as found by the Federal Trade Commission. In the drapery or department store trade, the co-operative operating costs also appear lower, 17·84 per cent. (or 21·86 per cent. for the Midland and Southern area only) as against 29·8 and 31·7 per cent. found by the Harvard Bureau, 20·25 and

[1] These three figures correspond with the 13·90, 18, and 18·20 per cent. given above as the total for grocery of estimated cost items, including miscellaneous and interest.

FIG. 38

COMPARISON OF COSTS AND NET MARGINS IN CO-OPERATIVE SOCIETIES AND IN NON-CO-OPERATIVE GROCERY AND DRAPERY CHAINS AND DEPARTMENT STORES

Source of Information	Trade and Year	Average Merchandise Cost	Average Operating Costs (including Interest)	Average Net Margin or Profit	Total Cost including Finance*
	UNITED STATES OF AMERICA				
Harvard Bureau of Business Research ..	Small Speciality Stores, 1928 ..	67·20	31·90	0·90	32·80
	Large Speciality Stores, 1928 ..	64·70	32·30	3·00	35·30
	Independent Groceries, 1924 ..	80·20	18·00	1·80	19·80
	Chain Groceries, 1929	80·60	18·20	1·20	19·40
	Small Department Stores, 1928 ..	70·40	29·80	—0·20†	29·60
	Large Department Stores, 1928 ..	66·80	31·70	1·50	33·20
Federal Trade Commission	Chain Groceries‡	79·42	18·48	2·10	20·58
	Chain Groceries and Meat‡ ..	80·98	16·20	2·82	19·02
	Chain Dry Goods and Apparel‡	73·82	20·25	5·93	26·18
	Chain Department Stores‡ ..	67·82	27·73	4·45	32·18
	GREAT BRITAIN				
R.D.A.	Department Stores, 1932	70·37	24·20§	5·43‖	29·63
100 Co-operative Societies. All areas ..	Grocery, 1932	77·07	12·78	10·15	13·20
	Drapery, 1932	72·31	17·84	9·85	18·26
25 Co-operative Societies. Midland and Southern only	Grocery, 1932	78·19	13·89	7·92	14·31
	Drapery, 1932	72·63	21·86	5·51	22·28

* For non-co-operative firms, operating cost plus net margin. For co-operative societies operating costs and 0·42 per cent. of sales representing margin allocated to reserve.

† Loss. ‡ Aggregate for 1913, 1919, 1922, 1925, and 1927–30. § Minus Interest. ‖ Plus Interest.

27·73 per cent. found by the U.S. Federal Trade Commission and 24·2 per cent. found for British department stores by the R.D.A. Too much stress should not be laid on the precise figures, since they refer to different countries, to somewhat different demarcations of the trade, and, in the case of the American enquiries, to different years.[1] It is possible to conclude, however, that co-operative societies do appear from these facts to effect a significant reduction in operating costs.

§ 4. *Comparative Retail Net Margins and Costs of Finance*

After the subtraction of operating cost from the gross margin, there remains the net margin. This margin is often called profit, but, even in a capitalist system, the persons to whom the net margin is paid vary so completely according to the circumstances, that it is unwise to use the word "profit" until the circumstances are known. In a small one-man shop, for instance, there are no wages and the net margin pays for the labour, for the capital, as well as for the management service of the proprietor. In a large multiple shop concern or department store, organized as a joint stock company, managers are paid by salary, and the net margin goes, apart from reserves, to pay for dividend on shareholders' capital. In short, the net margin may be payment for capital, labour and management, or payment for capital only, or payment for anything between these extremes, such as for capital and management, but not labour. If the word profit is to be used at all, it should refer to the pay of the capitalist entrepreneur combining in his person these *two*, but not all three, functions.

In a co-operative system, net margin is paid neither for labour nor for management, which are both remunerated by wages and salaries,

[1] As far as the difference in the year of observation is concerned, the Federal Trade Commission, if we except the abnormal year 1919, show no operating cost ratio below 16·42 per cent. for grocery chains or 15·59 per cent. for grocery and meat chains in any of the remaining eight years studied. This lower limit is still well above the co-operative grocery cost ratios of 12·78 or 13·89 per cent. In the drapery trade the Federal Trade Commission, again excepting 1919 and also 1913, show no operating cost ratio below 19·02 per cent. for dry goods and apparel chains and no ratio below 25·35 per cent. for department store chains. The Harvard Bureau also compares certain years for department stores. Between 1922 and 1928 the operating cost ratio never fell below 28·4 per cent. for the larger or 26·3 per cent. for the smaller stores. The lower limits are again all well above the co-operative drapery cost ratios of 17·84 and 21·86 per cent.

nor for capital and finance, which is remunerated by share and loan interests, included in operating costs, and thus already subtracted when the net margin is obtained. The co-operative net margin simply resolves itself, apart from reserves and special allocations, into the dividends on purchase. It certainly cannot be compared with the one-man shop net margin, nor with the profit of an entrepreneur capitalist-manager; but it can for some purposes be compared with the net margin of joint stock companies. This joint stock margin resolves itself into reserves and dividend on share capital, i.e. cost of finance, and excludes all payment for administration.

Reasons were given in the last section for supposing the co-operative to be less than the capitalist cost of finance. In capitalist joint stock undertakings, some capital is borrowed from banks, some is perhaps issued as debentures with fixed interest. But the remainder and usually the bulk of the capital of capitalist undertakings must be tempted into investment by the prospect of a high rate of dividend to offset its "locking-up" and risk of loss. Theoretically, the average rate of dividend on capital must be higher on the average of a number of years than the rate of interest on safe or gilt-edged securities; otherwise investors will keep their money in the safer stocks. In co-operative societies, on the other hand, capital is obtained, directly or indirectly, entirely from members, who are not speculating on an average yield higher than gilt-edged interest, or even higher than interest on Post Office savings.

The difficulty in testing whether this theoretical estimate corresponds with the facts, is that the supposedly higher capitalist dividend does not appear among the costs as does debenture or bank interest, but is included in the net margin with the reserves for the stable payment of dividends in later and possibly less prosperous years, and with the reserves for re-investment in the business. Co-operative societies accumulate similar reserves, for both purposes, calculated by Mr. Hough,[1] for 1932, as 4·2 per cent. of net margin or 0·42 per cent. of sales. These reserves constitute costs of maintaining a stable finance and should be subtracted from the net margin and added to total costs, which include those of finance. In the case of capitalist firms, the whole of the net margin, consisting, as it does, of dividends to secure capital plus business reserves, will on this principle be part of total costs that are meant to include costs of finance. This may at

[1] J. A. Hough, *Dividend on Co-operative Purchases.*

first sight appear somewhat arbitrary. But if we look at a distributive enterprise from the standpoint of the community of consumers, it is clear that the prices the community pays for distributive services include the cost of providing the necessary finance for this distribution. The shareholders in a capitalist enterprise are in that respect no different from their shop assistants: each has to be paid for services rendered and those payments are, to the consuming community, costs. Accordingly, in the third column of figures in Fig. 38 giving these total costs, 0·42 per cent. is added (for the cost of reserves per sales) to co-operative operating costs, but the whole of the net margin is added to non-co-operative operating costs. In this case, the total costs of non-co-operative firms compare still more unfavourably with co-operative costs, and the net margins of the co-operative societies, with the exception of reserves, appear as a clear surplus over and above non-co-operative results,[1] unless they are obtained by charging the consumers higher than market prices.

A wide enquiry into co-operative prices compared with the prices of other business conducted by Mr. Hough in February 1934[2] showed that in all cases in the north of Great Britain, co-operative prices were either the same or slightly higher than the prices in non-co-operative businesses of the same kind, while in all cases in the South and Midlands, prices were the same, though in some individual instances there was the tendency for co-operative prices to be lower than prices in similar businesses. If we take Southern and Midland sections only, therefore, we shall be isolating all the societies that charge at—or possibly below—market price. For the year 1932, the net surplus (or net margin), when expressed as a percentage of sales, was found to be 7·42 per cent. for the Southern, 7·32 per cent. for the South-western, 8·07 per cent. for the Western and 8·82 per cent. for the Midland Sections. Thus true net surplus represented by the *average* surplus of these market-price-charging sections was 7·91 per cent. This corresponds well with the 7·92 per cent. net margin for grocery departments obtained for the twenty-five societies specially cost-analysed in the Midland and Southern area. The grocery departments

[1] Non-co-operative net margins may, of course, include some "windfall" profits over and above what is necessary to maintain the trade and attract capital, and may thus include a surplus (to the capitalist) above true cost. These windfall profits are probably balanced in the long run by windfall losses.

[2] Op. cit.

handle, of course, the bulk of the trade, and are more representative than the drapery departments.

How is this surplus over and above all costs, including finance, obtained without any charging of higher prices to the consumer? The probable causes of lower non-financial charges have been detailed in Section 3, but more must be said of the "financial" cost of interest.

What is the rate of interest on sales in the co-operative societies that may fairly be compared with rates of interest and profit of non-co-operative retailers?

Before answering this question, it must be stated that the interest and profit rates quoted from the Harvard Bureau's enquiries, and shown in Fig. 37, refer only to such interest and profits as are obtained by retail trading; it excludes all other income such as interest on the capital of the firm invested outside the trade. As shown in Chapter 6, such outside investment bulks very large in the co-operative retail societies' finances. In 1932, the total assets were £172,316,258, of which £95,258,571 or 55 per cent. consisted in outside investments, to which may be added £1,238,022 in land, buildings and fixtures not used in trade and £3,190,629 of house property, making a total percentage of 58 per cent. The share and loan interest paid out on all the retail societies' capital has been calculated in 1931 as £5,450,286, but if we take only 42 per cent. of this as interest on trading, as against the 58 per cent. for capital invested outside, the interest on trading activities appears to be approximately £2,280,000. This sum is 1·1 per cent. of sales in 1931, and this is the figure shown in Fig. 37.

The co-operative rate of interest on sales will vary of course from year to year with fluctuations in the rate of interest on capital. It has been calculated, by a slightly different method, as 1 per cent. of sales in 1932 and 0·98 per cent. of sales in 1933.

In comparing rates of interest shown in Fig. 37, it must be remembered that the co-operative societies own a large proportion of their premises, and for this, unless completely depreciated, they pay interest on the cost of purchase instead of rent. In fact, in comparing total financial costs, rent, the payment for land and buildings to the landowner must be considered jointly with interest and profit paid to the capital owners. When all these costs are calculated on the total of sales as shown in Fig. 39, it can be seen clearly that in the aggregate the co-operative grocery departments have considerably lower financial costs than capitalist grocery stores.

Part of the reason for this low co-operative cost of finance is the large disclosed reserve accumulated by co-operative societies, amounting in 1932 to £22,600,000 (or over 13 per cent of the total trading

FIG. 39

FINANCIAL COSTS PER TOTAL SALES

	Independent Groceries, 1924 (Harvard Bureau)	*Chain Grocery* 1929 (Harvard Bureau)	*Co-operative Societies Grocery Departments* 1932 (Co-operative Statistics)
Rent	1·3	2·3	1·50*
Capitalist Profit ..	1·8	1·2	0·42†
Interest	1·1	0·75	1·10

* 0·60 without rates. † To reserves.

and externally invested capital), on which no interest was paid. But the main reason is the low rates of interest on shares and loans satisfying co-operative members compared to the rate of interest and profit expected by capitalists.

§ 5. *The Consumer's Reaction to Co-operative Retailing*

Hitherto the problem of efficient retail distribution has been discussed mainly in terms of economic costs and profits. In the co-operative movement, however, the function of retailing is not to make profits or even primarily to save costs but to satisfy the consumer. Retailing efficiency must in the last analysis be judged in terms of the consumer's human satisfactions.

In order to obtain such a judgment of consumers' reactions on an objective basis, a questionnaire was issued by the Commerce Department of the University of Birmingham to elicit the shopping preferences of a group of consumers.

A list of forty-two specific commodities in general demand was presented (see Fig. 40) and consumers were asked if they generally bought these goods at co-operative or private shops. If they bought at private shops, they were asked to state their reasons for not buying at co-operative shops, using the following symbols to summarize their reasons:

If the co-operative price is too high, "X".
If the co-operative service or delivery is poor, "S".
If you make the article at home, "M".

If you buy the article through a wholesaler, "W".
If the co-operative quality is poor, "Q".
If the co-operative shop is too distant, "D".
If it is just a matter of habit, "H".

It is obvious that information collected in this way about shopping habits would be useless unless something were known, in addition, about the people who answered the questionnaire, and therefore answers were sought to the following general questions, of which questions 1, 2 and 4 applied particularly to members of co-operative societies and 5 to non-members:

(1) Are you a member of a co-operative society? If so, why?
(2) Is it because of the "divi"?
(3) Are you interested in the ideals of Co-operation?
(4) Do you attend quarterly meetings of your society?
(5) If you are not a member of the co-operative society, why not?
(6) Do you think that the service in co-operative shops is inferior to that of other shops?
(7) Do you think that co-operative productions are inferior?
(8) Do you think that co-operative prices are higher?
(9) Have you any remarks you would like to make about co-operative enterprise?

The answers to this general questionnaire, besides giving information about the sample of people whose shopping habits were being analysed, also provided indications of opinion about the co-operative movement. The remarks (question 9) and the reasons given for membership of co-operative societies (question 1) proved to be particularly interesting, although not everyone who answered the questionnaire made a remark or gave a reason for membership. Not everyone answered all the questions, but no question, except question 9, was answered by fewer than 220 people.

The total number of forms which were sufficiently well filled in to contribute to the final result was 270. The work of distributing the questionnaire forms was done almost entirely by tutors of the Workers' Educational Association in different parts of England, and therefore those asked to contribute to the enquiry were scattered all over the country. None, however, living in Scotland, and only a few people from Lancashire and London answered the questionnaire, and

a large proportion of the answers came from Yorkshire, Birmingham and country towns near Bristol. About twenty answers to the questionnaire were received from middle-class people, and the remainder were answers from working-class families representing most of the important trades in the country, though a small proportion of the replies came from the unemployed. An early attempt to obtain answers to the questionnaire from a central Birmingham slum area ended in failure, owing to the paucity of families that seemed to trade at all with co-operative societies.

The method of distributing the questionnaire forms has had the result that the people who filled them in are by no means a random sample of the population. People who attend W.E.A. classes tend to belong to a certain social group and to be members of co-operative societies and interested in Co-operation. Evidence on this point is contained in a letter from a W.E.A. tutor who writes: "In my classes I have asked about 150 students not one of whom is not a member of a co-operative society. I gave out the forms at random and asked each person who filled in the form to get a non-co-operator to do the same. In nearly every case the student returned with his own form completed and the information that he didn't know a non-co-operator intelligent enough to fill in the form correctly, if at all. This may be prejudice——" Of the 270 people who answered the questionnaire, hereinafter referred to as our "informants", 240 said that they were members of a co-operative society, and only thirty said that they were non-members. The answers to the general questions certainly provide evidence of the unusual keenness of the informants. In the country as a whole, only about 2 per cent. of the members of co-operative societies attend the quarterly meetings of their societies, yet as many as 30 per cent. of our informants said (in answer to question 4) that they attended quarterly meetings and, in addition, 15 per cent. said that they attended occasionally.

Of the 240 people who said that they were members of co-operative societies, 87 gave their reasons for membership. The reasons given for membership provide evidence of the extreme importance to informants of the ideals and principles of Co-operation and the relative unimportance of economic advantage in determining membership. Seventy of the 87 reasons given can be classified as non-economic reasons; 43 said that they were members of co-operative societies because of the ideals and principles involved; 15 said that they were

members for reasons which could be classified as political, and 6 because they approved of the good treatment of employees in the co-operative shops. Only 17 people said that they were members of a co-operative society for an economic reason, such as the good value of the goods they bought or the convenience of shopping in a co-operative shop.

The answers to the two questions, (3) Are you interested in the ideals of Co-operation? and (2) Are you a member because of the "divi"? also showed the relative importance of ideals as against economies in the minds of our informants. Two hundred and ten people said that they were interested in the ideals of Co-operation and only 19 that they were not interested. Fifty per cent. said that the "divi" was not the reason why they were members and a further 28 per cent. said they were members only partly because of the "divi."

The first five general questions establish the keenly co-operative composition of the group of informants. There is all the more reason, therefore, to consider carefully their answers to the general questions (5, 6 and 7) about the possible inferiority of co-operative service and products and possible dearness of the prices charged.

The answers about quality of co-operative products were not by any means entirely reassuring, but will be taken up appropriately in the chapter on efficiency of production. The general answers about comparative prices differ widely and are considered below in dealing with the price obstacles to buying particular goods. The efficiency of service is general to a whole shop rather than particular to any commodity, and the answer to this general question may be considered immediately.

Fifty-five per cent. of the informants did not think that the service in co-operative shops was inferior, 34 per cent. thought that it was inferior and 11 per cent. thought that it was sometimes inferior. Twenty-four people, however, voluntarily made remarks (question 9) about the inferior service in co-operative shops and of these the following are good examples: "The assistants are slow and not obliging" and "Customers shop at co-ops. in spite of the service." Two remarks were made, however, to the effect that service in large towns is good, and it is probable that the efficiency of service varies very much in different places, but there is evidence that in some shops at least the standard of service is below that of private enterprise. Seven people made remarks approving the good treatment of em-

ployees (question 9). The two ideals of efficient service and good treatment of employees should not be entirely irreconcilable, but, to a certain extent, the insistence of some members that the employees be well treated must temper the tightening up of discipline which is probably necessary to ensure more efficient service.

The results of the enquiry into shopping preferences for specific goods are summarized in Fig. 40. The 270 people who answered the questionnaire stated where they bought the forty-two commodities on the list, whether at co-operative or private shops, and, where they bought at private shops, they were asked to give their reasons for so doing. The answers were added together and the table compiled by using the following symbols.

"c"—More buying done at co-operative than at private shops, but the number of people buying at co-operative shops less than double the number buying at private shops.

"C"—More buying done at co-operative than at private shops and the number of people buying at co-operative shops more than double the number buying at private shops.

"p"—More buying done at private than at co-operative shops but the number of people buying at private shops less than double the number buying at co-operative shops.

"P"—More buying done at private than at co-operative shops and the number of people buying at private shops more than double the number buying at co-operative shops.

The replies which came in from various parts of the country were grouped together and the table compiled to show the separate results from the North and South of England and the total result for England, including the Midlands.[1] A separate column for the Midlands was omitted for the sake of simplicity. One hundred and eleven replies to the questionnaire were received from the South of England, eighty-two from the North of England and seventy-seven from the Midlands. From the table it can be seen that there exists considerable uniformity in shopping habits over the whole country. The only commodity about which there is sufficient divergence of habit to change a two-to-one

[1] North extends southward to Yorkshire (where most answers come from) and Lancashire; South extends northward to Gloucestershire (where most answers come from) and similar latitude. Midlands includes intervening districts.

majority in one area into an adverse vote in another is bread, which is bought more in private shops in the North than in the South and Midlands. In the North, about 30 per cent. of informants baked their bread at home, while home baking is not done in the South and Midlands to nearly the same extent. This difference in baking habits is probably connected with the geographical difference in bread-purchasing habits.

The goods for which at least a two-to-one majority of our informants in England as a whole preferred private shops ("P" in Fig. 40) were poultry, fish and vegetables. Goods or groups of goods for which there was a less than two-to-one majority for private shops ("p" in Fig. 40) were meats, eggs, fruit, sweets, clothes, piece goods, furnishings, furniture and crockery. A less than two-to-one majority in favour of co-operative shops ("c" in Fig. 40) appeared in tea and coffee, biscuits, tinned goods, milk, cakes, tobacco, shoes and coal. A more than two-to-one majority ("C" in Fig. 40) appeared in the whole grocery group, with the few exceptions just mentioned, including bread.

This sample distribution of shopping preferences is in keeping with the division of total national sales of various groups of goods, as between co-operative and non-co-operative trade. Fig. 14 showed that co-operative shops have the highest proportion (about 23 per cent.) of national sales in grocery, next highest (about 14 per cent.) in coal and milk, next highest (about 9 to 10 per cent.) in meat, drapery and outfitting, and boots and shoes. Greengrocery and fish showed as low a proportion as 1 per cent. It is evident from our sample of informants that the comparative success of co-operation in the various groups of goods applies equally to keen members as to the general run of purchasers. Presumably the keen group of co-operators who answered the questionnaire would buy goods at co-operative shops unless there was a great disadvantage in so doing, and it is probable, therefore, that, for one reason or another, co-operative shops do not adequately meet the demands of shoppers for commodities which our informants stated to be largely purchased from private shops. It is of great practical importance to examine the reasons given for not buying at co-operative shops.

The total number of reasons given for failing to buy goods at co-operative shops is 2,638, which yields an average number of reasons per commodity of 63. The total of 2,638 reasons is made up in the

FIG. 40

PREFERENCES OF SAMPLE GROUP FOR PRIVATE OR CO-OPERATIVE SHOPS

Commodity Bought	Shop where Majority Buy*			Reasons, and Numbers of Times given, for not Buying at Co-operative Shops†						
	North	South	England including Midlands	X	Q	S	M	D	W	H
Butcher's Meat	p	p	p	49	10	9	—	25	—	19
Cooked Meats	p	p	p	20	14	—	—	19½	—	17
Bacon	p	p	p	44	29½	9	—	—	—	12
Sausages	c	p	p	12	18½	—	—	13	—	17
Butter	C	c	C	23½	8	—	—	—	—	—
Margarine	C	C	C	—	—	—	—	—	—	—
Lard	C	C	C	14	—	—	—	—	—	8
Cheese	c	C	C	13½	15½	—	—	—	—	9
Eggs	P	P	p	37	10½	—	14	—	9	21
Tea	c	C	c	12½	19½	—	—	—	—	13
Coffee	c	c	c	—	26	—	—	—	—	—
Cocoa	C	C	C	—	8	—	—	—	—	—
Food Drinks	C	C	C	—	—	—	—	—	—	—
Flour	C	C	C	12	—	—	—	—	—	—
Biscuits	c	p	c	29	31½	—	—	—	—	8
Cereals	C	C	C	10	—	—	—	—	—	—
Jams and Preserves	c	C	C	12½	14½	—	39	—	—	—
Sugar	C	C	C	9½	—	—	—	—	—	—
Tinned Fruits	c	c	c	30½	—	—	—	—	—	9
Other Tinned Goods	c	c	c	26½	—	—	—	—	—	9

Sauces and Pickles	c	C	C	—	—	—	19	—	—	—
Salt, Pepper, Mustard ..	C	C	C	—	—	—	—	—	—	10
Soaps	C	C	C	8½	9½	—	—	—	—	11
Polishes	c	C	C	9½	—	—	—	—	—	16
Milk	c	c	c	—	8	10	—	8	—	28
Bread	p	C	C	—	22	—	35	—	—	15
Cakes and Confectionery ..	p	c	c	—	25½	—	53	—	—	—
Poultry	P	P	P	11	—	—	11	21½	—	19
Fish	P	P	P	19	—	12½	—	51½	—	24
Fresh Fruit	p	P	p	23	12½	—	—	28	—	22
Vegetables	P	P	P	18½	13	9	15	37½	—	15
Sweets and Chocolates ..	P	p	p	—	27½	—	—	12	—	19
Tobacco	c	c	c	—	8	—	—	—	—	14
Men's Clothes	p	p	p	25	30½	—	—	—	—	—
Women's Clothes	P	p	p	27	31½	—	—	11½	—	13½
Boots and Shoes	c	c	c	25½	16	—	—	—	—	17
Piece Goods by the yard ..	p	p	p	23½	9½	—	—	13½	—	20
Household Soft Furnishings (curtains, linen, etc.) ..	p	p	p	23½	11	—	—	16	—	18
Furniture	P	p	p	27	11½	—	—	18½	—	16
Crockery	p	p	p	31	8½	—	—	21½	—	19
Coal	c	c	c	31	9½	8½	—	—	9	—
Laundry	p	P	p	11	—	—	66	12	—	15

* Majority for private shops more than 2 to 1 = P; less than 2 to 1 = p. Majority for co-operative shops more than 2 to 1 = C; less than 2 to 1 = c.

† X = Expensive, price at co-operative shops too high. Q = Inferior quality. S = Inferior service. M = Made at home. D = Co-operative shop too distant. W = Bought from wholesaler. H = Bought at private shop out of habit.

Where reason given less than eight times, number omitted. If two reasons are given by one informant, each reason is counted ½.

following way: price 714, habit 540½, quality 517½, distance from shops 367½, made at home 268, service 180½, bought from a wholesaler 50.[1]

The reasons (and the number of times each is given) for not buying particular goods at co-operative shops are listed in Fig. 40, but no mention is made of any reason unless eight or more people have mentioned it for any particular commodity. The distribution of reasons between the various products suggests certain practical policies for extending co-operative trade.

FIG. 41

REASONS FOR NOT BUYING SPECIFIC GOODS IN CO-OPERATIVE SHOPS

Reason	Number of times particular reason given and percentage of all reasons			
	South	Midlands	North	All Regions
Price	219½ (22 %)	145½ (22 %)	349 (36 %)	714 (27 %)
Quality	200 (20 %)	140½ (21 %)	177 (18 %)	517½ (20 %)
Service	74½ (7 %)	19 (3 %)	87 (9 %)	180½ (7 %)
Distance	176½ (18 %)	90 (14 %)	101 (10 %)	367½ (14 %)
Habit	229½ (23 %)	162 (25 %)	149 (15 %)	540½ (20 %)
Made at Home ..	93 (9 %)	73 (11 %)	102 (10 %)	268 (10 %)
Bought Wholesale	11 (1 %)	25 (4 %)	14 (2 %)	50 (2 %)
All Reasons ..	1,004	655	979	2,638

High price is given a total of 714 times, or 27 per cent. of all reasons for England as a whole, as the reason for not buying specific goods at a co-operative shop. In the North (as shown in Fig. 41) high price is relatively more frequently given as a reason than in the South. It forms 36 per cent. of all reasons in the North as against 22 per cent. of all reasons both in the South and in the Midlands, where price is no more frequent an obstacle than quality or habit. Had the Northern price objections kept down to the Southern level, many more kinds of goods would have been bought in co-operative shops by our Northern informants; a serious reflection on the Northern policy of keeping up prices to obtain high dividends.

[1] If two reasons are given by any one informant for not buying any one article co-operatively, each reason is counted ½.

The specific goods where, as Fig. 40 shows, high price was an important main reason against buying co-operatively were shoes, piece-goods, furnishings, furniture, crockery, coal, all the meat groups (except sausages) and butter, eggs, biscuits and tinned goods in the grocery group. It is for these commodities that price reductions should be particularly considered. Many of them, such as furnishings and furniture, have, to judge from family budgets at different income levels, an elastic demand so that price reductions would result in greatly extended sales. Where this is the case total revenue will be maintained in spite of reductions in price, and dividends may not have to be cut at all.

The answers of people to the general question as to whether in their opinion co-operative prices were higher than non-co-operative took the form of "Yes", "Sometimes", or "No". There were comparatively more "Yesses" in the North, and more "Sometimes" in the South. The percentages for England as a whole were "Yes", 29 per cent.; "Sometimes", 38 per cent.; "No", 33 per cent.; and for the South and Midlands only, "Yes", 26 per cent.; "Sometimes", 41 per cent., and "No", 33 per cent. The frequency of "Yes" and "Sometimes" in these Southern districts is surprising, but does not necessarily imply a criticism, if quality or, as in certain societies in the South, high dividend is considered worth the higher price. In their remarks (question 9), however, some people stated that they would prefer lower retail prices to a high dividend, and a few suggested that high prices were not always the result of a high dividend policy, but were sometimes caused by inefficiency. One unemployed man remarked that the unemployed were forgotten and only the moneyed catered for.

Habit is given as a reason for not buying at co-operative shops a total of 540½ times, or 20 per cent. of all reasons. This high total suggests that the co-operative societies do not make sufficient attempts to alter the shopping habits of their members and that they might be well advised to adopt sales-pushing methods in the case of certain commodities. The main reason for buying milk, soaps and polishes from private shops is given as habit, and habit was an important secondary reason for not buying co-operatively in the case of the poultry, fish, fruit and vegetable group, where preference in favour of private shops was over two to one, and also in the case of sweets, clothes, piece-goods, furnishings, furniture and crockery where that preference was only slightly less strong.

It should be a relatively simple matter to change these habits if the co-operative shops adopted more efficient advertising, based on careful market research. A few people made the point that insufficient advertising was done by the co-operative societies in their answers to question 9 of the general questionnaire. In this connection, one member wrote "window dressing bad" and another made the remark that "there should be more press advertisement".

Inferior quality of goods sold is given a total of 517½ times, or 20 per cent. of all reasons, as a reason for not buying goods at co-operative shops. It was the main reason in the case of butter, cheese, tea, coffee, cocoa, biscuits, sweets and chocolate, clothes, and an important secondary reason in the case of sausages, jams and preserves, bread, cakes and confectionery. Almost all these goods are produced within the co-operative movement, so that criticisms, so far as they are not just a matter of habit, may here be levelled either against the buying policy of co-operative retailers or against co-operative products.

Distance from a co-operative shop is given a total of 367½ times, or 14 per cent. of all reasons, as a reason for not buying goods at co-operative shops. It was the main reason in the case of the poultry, fish, fresh fruit and vegetables group, where private shops were so greatly preferred to co-operative shops, and the secondary reason in the case of butcher's and cooked meats, furniture and crockery, where private shops were slightly preferred. How far it is economically worth while setting up additional co-operative shops or departments to meet these unsatisfied demands for nearer premises, depends upon the volume of trade that can be expected. Probably if price and quality were satisfactory, and the habit of buying at private shops broken down, a trade at least sufficient, in fish, greengrocery, butchery and furniture-cum-crockery, to pay for itself might be set up in many new locations.

Made at home is given a total of 268 times, or 10 per cent. of all reasons, as a reason for not buying goods at co-operative shops. It was the main reason in the case of jams and preserves, sauces and pickles, bread, cakes and confectionery, and laundry. Modern trends, however they may be deplored, are setting against washing clothes and making goods at home and the co-operative movement should be in a position to capture the new "business" that arises. Here again efficient advertisement based on the appeal to save labour, or on

claims that co-operative products are of home-made standards, would be likely to extend co-operative trade.

The deficiencies of the service in co-operative shops was dealt with in the general questionnaire. Inferior service is given a total of 180½ times, or 7 per cent. of all reasons, as a reason for not buying specific goods at co-operative shops. Fig. 41 shows that inferior service is complained of in the North more often than the South and Midlands. Poor service never appeared as the main reason in the case of any one commodity, but was given over eight times in the case of milk, coal, fish, bacon and butcher's meats. It is significant that the first two of these items depend upon house-to-house rounds for their delivery; it may have been this "service" that was at fault.

Finally, goods are not bought at co-operative shops because they can be procured wholesale. This reason was only given fifty times, and as Fig. 41 shows, twenty-five of these were in the Midlands. The only cases where this reason is given more than eight times and therefore qualifies for entry in Fig. 40 is that of eggs and coal. It sometimes happens that a family has relations or friends with trade connections, whether agricultural or industrial, and can therefore obtain goods without the intervention of the retailer. If retailers (including co-operative societies) push or keep up prices, or reduce quality or service, more of this "direct sale" is likely to take place. Co-operative shops must realize that they are not only competing against private shops but also against systems of distribution which eliminate shops and retailing altogether, and that the system which appears most efficient and satisfactory to the consumer will tend, in the long run, to win.

CHAPTER 23

THE EFFICIENCY OF CO-OPERATIVE WHOLESALE DISTRIBUTION

§ 1. *The Extent of Co-operative Wholesaling*

THE co-operative plan of abolishing "profit" margins as payment for capital and management, and of reducing costs by attracting custom through dividend on purchase and elimination of competition, applies to wholesale no less than to retail distribution. The elimination of competition within the movement and the trend toward large-scale organization is indeed more obvious at the wholesale than at the retail stage, since two huge organizations, the C.W.S. and the S.C.W.S., have each a monopoly of co-operative wholesaling in their own country and are linked for joint purposes in the E. & S. Joint C.W.S. The attraction of custom, whether by cost reduction due to this large-scale organization or by the dividend on purchases, is certainly successful.

The bulk of the goods that the retail societies buy for resale to their members are bought from the co-operative wholesale societies. The sales of co-operative retail societies were in 1935, for instance, worth approximately £171,000,000 at wholesale prices. Of this, £31,000,000 represented the gross value of their own production and services, leaving £140,000,000 as the value of goods purchased.[1] The sales of the three wholesale societies, free of duplication by reason of sales to one another and less sales to co-operative societies abroad and to non-co-operative firms at home, totalled £113,000,000 sold almost entirely to retail societies. This represents 66 per cent. of all retail society sales, including their own productions, and 80 per cent. of retail society purchases excluding, that is, their own productions.

Retail societies also purchase merchandise from the productive and federal societies. The sales of these societies amounted in 1935 to about £6,500,000. Thus the retail societies appear to buy about £150,500,000 of merchandise from all varieties of co-operative

[1] See *Review of Co-operative Statistics*, 1935. The gross value of retail societies' own productions and services is stated to be at wholesale prices, but possibly some services are included at retail values.

agencies, including their own productions. This sum represents 88 per cent. of their total sales, leaving only £20,500,000, or 12 per cent., as merchandise bought outside the co-operative movement.

The facts detailed above are set out in the following table:

FIG. 42

EXTENT OF PURCHASE OF RETAIL SOCIETIES' MERCHANDISE FROM CO-OPERATIVE AGENCIES IN 1935

	Gross Value at Wholesale Prices		*Percentage Index*
	£	£	
Total Sales of Retail Societies ..		171,000,000	100
Retail Societies' Productions and Services	31,000,000		18·2
Total Sales of Wholesale Societies to Retail Societies	113,000,000		66
Total Sales of Productive and Federal Societies	6,500,000		3·8
Total Merchandise bought by Retail Societies from Co-operative Agencies	150,500,000		88·0

It is evident that the immediate sources of retail societies' purchases are almost completely co-operative. Among these sources the wholesale societies bulk largely. Their sales of approximately £113,000,000 were more than five times as great as the £20,500,000 of retail society sales not coming from co-operative agencies. Wholesaling may be said to be very fully integrated into the co-operative system, and the problem is not so much the increase of the proportion of co-operative wholesaling as the quality and economy of that activity.

§ 2. *Comparative Wholesaling Costs and Margins*

The independent wholesale merchant in the capitalist system is often abused as the middleman *par excellence*, who has no real functions to perform, and who merely exacts toll from the passage of goods through his hands. This abuse is misplaced. The goods that consumers demand are, under competitive capitalism, provided by a number of manufacturers, often on a small scale, trying to find contact with a number of retailers who are also, often enough, on a small scale. "Somewhere in the process . . . efficiency demands large-scale organization. If in any one line of goods there are a hundred small producers

and a thousand small retailers there will, of mathematical necessity, be a hundred multiplied by a thousand contacts between them. Salesmen, orders, deliveries, invoices, bills, receipts, will be thus multiplied a hundred thousandfold. But let three large wholesale firms intervene and the necessary contacts will be reduced to three hundred between producers and wholesalers plus three thousand between wholesalers and retailers, a total of three thousand three hundred instead of a hundred thousand."[1]

As between numerous producers and numerous retail outlets, the wholesaler performs much the same functions as were detailed for the retailer in order to account for his operating costs. The wholesaler must inform the retailers of merchandise that is produced, making contact by showroom, catalogue, salesmen and advertisement. He may undertake reassembling, blending, packing and other "handling" on a more efficient scale than is possible for producer or retailer. He may be able to transport goods cheaply in bulk close to the retailer's shop; and finally he may be holding stock in an economically massed reserve for a number of shopkeepers of the district.[2]

These functions must be paid for. The United States Census of Distribution taken in 1930 shows total expenses of wholesaling, half of them wages and salaries, as high as 8·82 per cent. of the wholesale price for groceries and 13·36 per cent. of that price for the drapery trade. The Harvard Bureau of Business Research found 10·56 per cent. to be the operating costs of grocery wholesalers in 1923 and 16·6 per cent. that of dry goods wholesalers in the Southern States for the same year. America is a land of long distances and, for comparison with Britain, the transport costs may perhaps be subtracted. These, however, as calculated by the Harvard Bureau, do not seem to have amounted to more than 0·9 per cent. of sales for grocery and 0·16 per cent. for dry goods.[3] Enquiries into single British wholesale grocery firms do not make 9 or 10 per cent. appear an excessive wholesaling cost for this country. The only non-co-operative wholesale distributor the Balfour Committee were able to quote, a "textile house", gave expenses as 12·6 per cent. of sales.[4]

[1] P. Sargant Florence, *Logic of Industrial Organization*, p. 41.

[2] See Braithwaite and Dobbs, *The Distribution of Consumable Goods*, Chapter VIII, for a full discussion of the functions of the wholesaler in the capitalist system.

[3] Under headings outward freight, express and parcel postage and outward package.

[4] *Committee on Industry and Trade, Further Factors*, p. 154.

Abuse of wholesalers we said was misplaced. They perform certain functions necessary in the capitalist competitive economy, and it is this economic system rather than the wholesaler that is responsible for the high costs involved. At any rate it appears that the co-operative economy as developed in Great Britain can substantially reduce the expensiveness of these functions. The Co-operative Wholesale Society's expense in 1935 for distribution of groceries is given as $3\frac{1}{8}$d. per £ of sales (at wholesale prices) or 1·3 per cent.; for distribution in the drapery trade, as 1s. $10\frac{1}{8}$d. per £ of sales or 9·2 per cent.[1] How do the wholesale societies achieve these reductions compared with the capitalist wholesaling costs in similar trades?

To a slight extent the low wholesaling expenses proportion of the C.W.S. is created artificially. Where the C.W.S. is dealing with goods of its own production, some of the true wholesaling expenses are thrown on the back of co-operative factories. These marketing expenses debited to factories on account of sales promotion (advertising, showcards, exhibitions and travelling), and of the office expenses of handling and invoicing orders, such as printing, stationery, stamps and telegrams, totalled £330,000 in 1934 (owing to a change in presentation of accounts, later figures are not available). This represents about 1·3 per cent. of the gross value of C.W.S. goods produced in that period and 0·38 per cent. of the total sales. The proportion of co-operative wholesaling expense obviously remains low even with these corrections. In any case, many capitalist manufacturers also, as will be seen later, shoulder marketing costs. The explanation

[1] The rate of expenses to sales in all wholesale departments of the C.W.S. was in 1935 as follows:

	Total Expenses £	*Total Net Sales*	*Rates* Per £	Per cent.
Grocery and Provisions ..	965,650	72,965,165	0/3⅛	1·3
Coal	28,590	4,206,338	0/1⅝	0·7
Drapery	434,892	4,713,692	1/10⅛	9·2
Men's Wear	247,831	3,144,579	1/6⅞	7·9
Boots, Shoes, Grindery ..	132,127	2,467,166	1/0⅞	5·3
Furnishings	285,494	4,945,162	1/1⅜	5·7
Totals: Distributive Depts.	2,094,584	92,442,102	0/5⅛	2·2

In case 1935 be thought an exceptionally prosperous and therefore low cost year percentage rates corresponding to the last column may be quoted for the half-yea ended January 14, 1933: Grocery and Provisions 1·3, Coal 0·8, Drapery 9·7, Woollen and Ready-mades 9·7, Boots and Shoes 6·6, Furnishings 6·8.

of the apparent economy of co-operative wholesaling is not to be sought in some manipulation of the statistics, but in the facts of the situation.

One reason for the real economy of co-operative wholesaling is the huge national scale on which it is organized, and the fact that, in each national area, one co-operative wholesale society holds a virtual monopoly of the wholesale co-operative trade. The United States Census of Distribution of 1930 provides striking evidence of the economy in operating costs of the larger as against the smaller wholesaling merchants. The smallest wholesale merchant houses, taking trade as a whole, had operating costs equal to 26·9 per cent. of sales; the largest had an operating cost percentage of only 9·7 per cent., and the fall in operating costs is continuous in the intervening sizes. In single trades, the association of lower operating costs with larger size is not so continuous throughout the range of sizes, but grocery shows a variation in operating costs from 22·6 per cent. for the smallest size to about 8·5 per cent. for the medium sizes and 9·5 per cent. for the largest size of wholesale merchants; while dry goods (or drapery) shows a variation in operating costs from 26·1 per cent. for the smallest-sized wholesale firm to between 13 and 16·5 per cent. for the medium sizes and 15 per cent. for the largest size. Clearly the S.C.W.S. and the C.W.S., which would rank as relatively medium to large-sized organizations among wholesalers, gain in chances of efficiency from mere size.

Monopoly is equally important in effecting economies. The present capitalist system involves, as well as competition among retailers, competition among wholesalers. While expensive wholesaling is necessary to keep in contact with hundreds of competing retailers, wholesaling is made still more expensive per unit of sales by competition between the wholesalers themselves. Competitive advertising and salesmanship is involved, with a greater risk of any one competitor's warehouse and staff not being employed to full capacity. The C.W.S. has, as a start, a well-assured quasi-monopolized market that makes it possible to reduce the cost (per unit sold) of the wholesaling functions of information, transport and the holding of stock. There is competition beyond the point where retail societies' buyers may threaten to go elsewhere, but the initial loyalty and goodwill is a unique asset.

Beside large-scale organization and some monopoly, a second reason

for the comparative economy of co-operative wholesaling is that, while non-co-operative wholesalers "appear in many cases to supply retailers with goods on long credit and in fact, therefore, finance the retail trader, the Co-operative Wholesale Societies are not in the same proportion called upon to shoulder this burden."[1]

A third and possibly the main reason for the economy of co-operative wholesaling is that the C.W.S. acts largely as a broker rather than as a merchant. Most C.W.S. products and many products obtained from outside are sent direct from works to the retail society. In this case, the wholesaling activity is not concerned with all the main functions of information, handling, transport, and holding. Wholesaling is simply confined to the paper-work of ordering, invoicing, and collection of debt, with possibly some giving of information. Brokerage is obviously less expensive than full merchanting. For the grocery and drapery trades in the U.S.A., the expense of brokers was only 1·2 and 1 per cent. of sales respectively, as against 9·3 and 13·5 per cent. for wholesale merchants. The broker avoids the transport and handling costs. He does not hold stocks and consequently avoids the high interest and rent cost involved. Co-operative wholesalers in fact hold such a low value of stock in the distributive department relative to their sales, that the distributive stock turn of the S.C.W.S. was in 1933, 21·3, while that of the C.W.S. was 33·3. This forms a great contrast to the stock turn of 5·9 and 3·4 found in 1923 by the Harvard Bureau for American wholesale grocery and dry goods merchants. Where brokerage can take the place of merchanting, it marks a reduction in the real costs to the consumer. This real economy is achieved within the co-operative movement, but in the capitalist system brokerage is often simply an additional stage to wholesaling in the transit of goods from producers to consumers.

It is not the costs and profits of any one distributor along the line of transit of goods from producer to consumer that matters to the consumer, but the total of the costs and profits of all the distributors that may be found in the course of this transit. This is the test of the real efficiency of distribution. Some of these transit costs and profits may be borne and charged by the producer, particularly if he sells direct to the retailer or markets a branded article; some of them may be borne and charged by the retailer, as in the case of chain stores

[1] Balfour Committee on Industry and Trade. *Further Factors in Industrial and Commercial Efficiency*, p. 119.

with their warehouses; but the costs and profits remain "on the consumer", and the expenses of all the steps must be added between producing and selling to the final consumer. It is in respect of the total of these expenses, whoever pays them in the first instance, that comparison should be made as between the capitalist and co-operative methods.

A detailed estimate of the total cost of marketing functions in the U.S. grocery trade has been put forward by the Harvard Bureau of Business Research.[1] It appears that, out of the *wholesale* price charged to the retailer, the wholesale grocer may take 11·3 per cent. (10·6 per cent. for expenses plus 0·7 per cent. for profit), but in addition to this, manufacturers of canned and bottled foods may, for marketing expenses, pay 17 per cent. of the price they receive, the manufacturers of cereals, biscuits, jams, etc., 26·9 per cent., and manufacturers of soaps, cleaners, polishes and disinfectants as much as 37·2 per cent. The wholesaling functions incurred by these manufacturers are the functions of information, including sales promotion, and advertising, rising as high as 6·5 per cent. of wholesale prices on the cereals and 13 per cent. on the soaps group, and the functions of transport and warehousing totalling 6 per cent. of wholesale price for the canned foods, 8·5 per cent. for the cereals group and 8 per cent. for the soaps groups.

In America, the independent capitalist grocery retailer has already been shown (Fig. 38 above) to take, in a typical year, 19·8 per cent. of the consumers' money,or roughly 4s. of his pound. It now transpires that the capitalist grocery wholesaler may take, of the remaining 16s., 11·3 per cent., or roughly 1s. 10d., while the capitalist manufacturer of cereals, biscuits and jams, to take an average grocery case, may spend for distributive costs 17 per cent. of the remaining 14s. 2d., roughly 2s. 4d. In all, the consumer thus pays 8s. 2d. out of his pound of grocery purchases, or 41 per cent., for distributive charges only.

In spite of the continual talk about middleman's exactions and profits, no accurate enquiry has been made in Britain into the total of marketing costs incurred between capitalist producer and retailer, either in the grocery or in the drapery trade. Casual enquiry appears to show that, in British branded grocery articles, it is not unusual for the marketing expenses to take 40 per cent. of the consumers' money,

[1] See *Economic Journal*, December 1930. The dates of the actual inquiry were 1923 for wholesalers, 1927 for manufacturers.

is in America, or even more. The same appears to be true in the case of certain household appliances.

In the British co-operative movement, the retail margins, that is, the difference between merchandise cost and prices, appeared in 1932 (see Fig. 38) to average about 22·93 and 27·69 per cent. of the retail price for grocery and drapery respectively. In addition to this, the wholesale margins, consisting of costs and surplus, charged in 1932 (latter half), were for grocery 3·1 per cent. and for drapery 11·5 per cent. of wholesale price, equivalent to 2·4 and 8·3 per cent. of the retail prices.

The distribution costs incurred by the non-co-operative producers selling through the C.W.S. is not known, but it is possible to estimate from C.W.S. records the distributive costs charged to C.W.S. factories. It may be assumed that two-thirds of the printing, stationery and stamps, the whole of the travelling, advertising and showcards, and exhibition expenses charged to factories, are incurred for distribution. Given these assumptions, the wholesale distributive costs of the factories under the C.W.S. grocery and drapery committees appear to have been not more than 0·37 per cent. of grocery and 0·5 per cent. of drapery sales. This is equivalent to 0·29 and 0·36 per cent. of the retail sales. Assuming C.W.S. wholesaling margins and co-operative retailing margins to be the same whether co-operative or non-co-operative products are dealt in, the total distribution charges or margins on co-operative grocery and drapery products appear to bear the following percentage to the retail price:

	Grocery per cent.	*Drapery* per cent.
Producers' Distributive Margin ..	0·29	0·36
Wholesaling Margin	2·40	8·30
Retail Margin	22·93	27·69
Total Distributive Charges	25·62	36·35

Instead of the 8s. 2d., or 41 per cent., of the consumer's pound spent in groceries, taken by the various capitalist marketing charges, only about 25 per cent., or 5s., seems to be taken by the marketing charges on co-operative grocery products, quite apart from the fact that a dividend on purchase is returned from wholesale to retail societies and from retail societies to their individual members. The

costs thus saved appear in the lower-than-market wholesale prices that are charged to retail societies and in the large allocations to reserves made in prosperous years.

§ 3. *Administration and Development*

Undoubtedly the total marketing charges in co-operative trade are lower than in capitalist trade. Costs are lower and profits are paid back to the customer. But it must be recognized that, up to the present, the co-operative movement has been largely skimming the cream of the trade. As soon as the movement advances, as it has already, beyond its loyal membership, as soon as it starts competing on a big scale with chain stores and department shops, as soon as it offers a wider variety of merchandise to a wider public, then expenses begin to rise. Presumably the co-operative movement is to move still further forward. The problem therefore is to extend markets and yet to keep wholesaling and marketing costs on the economical footing existing up to the present. The problem is not insoluble if co-operative administrators rise to their opportunity.

When considering the comparative costs of wholesaling in labour, capital, land and administration, it has hitherto been taken for granted that those agents of production are of similar quality in co-operative and non-co-operative undertakings. In actual life, quality varies widely, and if cheapness means poor quality, some of these agents may be had too cheap. The co-operative movement does not try to obtain its wholesaling salesmen and labourers any cheaper than the capitalist; in fact the opposite is the case. Nor are the land and buildings of the wholesale societies particularly cheap; the sites are as central and the architecture at least as "handsome" as in similar capitalist wholesale establishments. The factor where doubt creeps in is the administration.

Administration involves first of all the higher control of the routine machinery; the surveying of the flow of orders and sales, of revenue and expenses, of stocks and marketing costs, and of the activities of competitors. These administrative duties are competently performed by the C.W.S. and the S.C.W.S. for their own wholesale trade. But something more than this is required of administration in the co-operative movement, if that movement is really to move forward. The wholesale societies have always considered it part of their duty to

guide and advise the retail societies. They have the advantage of large-scale organization, with its possibilities of specialized experts, and they alone have the centralized knowledge of co-operative distribution and production. Should they not be the leaders in developing co-operative trade as a whole, so that it may eventually perhaps take the place of capitalist enterprise?

It is in development policy that administrative ability must show its quality. For a co-operative movement with any ambition to displace capitalism, however gradually, development is essential, and no device for development can be neglected, even though it was first thought of by the capitalist competitor. These devices include the branding of products, advertising those brands, and every means that merchandising policy can plan for adapting goods to the demand of the consumers through adjustment of price, quality and design. Obviously, before any such developments can successfully be planned, research must be undertaken into the mind of the consumers to be catered for. Market research and consumer psychology must take their place in the armoury of the co-operative wholesaler.

Up to the present, market research cannot be said to have been undertaken on any sufficient scale in the co-operative movement.[1] The C.W.S. Sales Investigations Departments established at Manchester, London, and Newcastle each consist of one officer, who confines his enquiries to the purchases of non-co-operative goods made by retail societies within his area, and tries to induce a change in their policy by appeals in various influential quarters. The Publicity Department at Manchester has begun an analysis of the total consumers' demand of particular commodities, of the total number of plants, capitalist and co-operative, producing a particular product, and of all the distributive organizations existing in the country. This is real marketing research, or at least the beginning of it, and would certainly justify an extension of the department.

Market research does not confine itself to the present situation, but should try to forecast the trend of supply and demand, so as to be able to adapt products and prices to the future market. For this purpose enquiry must pursue the conditions underlying both the supply of and the demand for particular goods. The class and buying habits of actual and potential consumers; the climate, degree of urbanization and the type of house in the market district; the price,

[1] See also Chapter 27, § 3.

possible uses, designs, branding, and packing of the product: all these factors influence demand. Supply is influenced by the organization of the industry producing the article and the methods of distribution and advertising it. When a new article is to be put on the market, the producers should know who is going to demand it, where it is to be bought, how, and at what price. They must also know who is likely to supply substitutes and how they are going to be made and sold. This information may be difficult to obtain, and an expert research staff may be costly to maintain; but for large organizations like the co-operative wholesale societies, it will pay in the end. The hit and miss method of trial and error will not survive in competition against scientific sighting. A large, modern sales force cannot do without marketing research, any more than a large, modern army can do without scouting and an intelligence service.

Once all-round information is obtained, trade development may proceed to the actual business of merchandising, advertising and sales promotion. Merchandising means the adaptation of the grades, design, packing, price, or brand name of any product to the demands of the consumer; in short, making a marketable commodity, that is, "merchandise", out of any product. The co-operative movement has not, as a whole, consciously adopted any policy of this sort. Prices are not generally thought out and planned in relation to the spending power of various classes, but are left at the competitive level; designs, grading and packing are not studied any more than, if as much as, by the competing capitalist. Too often the packages, cans or bottles containing C.W.S. or S.C.W.S. products are unattractive or positively repulsive, nor can the brand names of many co-operative products be considered very happy.[1] The invention of brand names requires a knowledge of consumers' reactions which the managers of works do not necessarily possess; an efficient administration would delegate such invention to experts.

A low advertising cost is, thanks to a loyal market, a main factor in co-operative efficiency; but as soon as an attempt is made to develop beyond this assured market, some degree of advertising is essential. A market is then invaded that is fiercely competed for by private enterprise, and at least equal enterprise must be displayed by the co-operative invader. It is certainly a false economy to try a cheap

[1] For instance, "Lustre" and "Cogent" cigarettes, "Territorial" sauce, "I and U" shoes, "Federal" bicycles, "Lokreel" tinned foods.

quality of advertising. The wholesale societies' branded products have no fixed prices, except as a maximum, hence the appeal cannot be to price but may be to quality, co-operative honesty or other psychological factors. The design and layout of the copy for competitive advertisement is now a specialist's job. Posters of the C.W.S. such as that depicting flowers and butterflies with the caption "Summer is here. Buy C.W.S. Products", would certainly not pass the scientific tests of the psychology of consumers' reactions. Attention must be paid among other factors to appropriateness and relevancy and to the indication of the precise article that the prospective consumer is urged to buy. Here again the co-operative movement seems to underrate the importance of training and to be behindhand in using modern scientific technique. Commercial art has recently made great strides and specialists are to be had at reasonable salaries. Unless the co-operative movement would rather stop at its assured market, the problem of developing its trade must be assigned to trained skill.

General advertising is only one method of increasing sales, and any wholesale society's "sales promotion" must include helping retailers to dress their windows and display attractive signs, staging exhibitions and demonstrations, and generally convincing the neutral consuming public of the superiority of co-operative products and service. Co-operative plants, such as the Soap Works, the Preserve Works and the Lowestoft Canning Factory, organize and encourage works visits, and distribute prizes for window displays or for essays on the use of their products. These policies point the way. Clearly if the capitalist wholesaler, from whom co-operative retail societies buy part of any line of goods, is prepared by various devices to promote the sales of the goods, and the co-operative works producing a similar lines does not equally back up its salesmen, then the retail society manager is liable to turn to the capitalist for the proffered help. Managers, particularly of large societies, are busy enough with the routine selling; they are not in a position to refuse free help in development policy from whatever quarter it may come.

The co-operation here discussed is a *consumers'* co-operation, and there is every reason for paying this attention to the consumer, however neutral as between Co-operation and private enterprise he may be. The wholesale societies are not, on principle, trying to force unwanted goods down the consumers' throat; but, if they believe in the quality and value for money of their own products and services, they must

try to make the neutral consumer believe in them too. They are up against skilled and expert competitors and cannot neglect their scientific arts of persuasion in the belief that the consumer "always knows best". The average consumer, on the contrary, is often ignorant and gullible. The consumers' co-operative movement must solve the problem of trade development by studying the psychological features, rational and irrational, of its own members and its potential membership as well. No trade organization is in a stronger position to do this than the consumers' own wholesale societies. They have, indeed, selling points to make that go deeper than those of their capitalist competitors. They can educate their members, through the Men's and Women's Guilds and the whole co-operative educational machinery, in real food values. They can teach some elementary chemistry so that a member will not be gulled into paying three times the necessary price for a certain medical mixture, merely because the mixture is offered under an attractive name, expensively advertised. They can take a leaf out of the books and bulletins of certain American Consumer Research Societies in which are published the results, duly graded, of testing advertised products impartially and scientifically. This debamboozling of the consumer and his protection against the "ballyhoo" of the capitalist advertiser is a task clearly in harmony with co-operative ideals.[1]

Education in the interests of the co-operative ideal of good quality for low price might even attempt, without planning consumption for him, to make the consumer more rational in his wants. A reasoned educational campaign might persuade members to ask in their shops for certain staple varieties of goods that could then be economically mass produced by the co-operative movement, instead of demanding every sort of variety and sub-variety that the imagination and the capitalist competitor suggests. Admittedly, human nature is hard to educate, and some retail societies may and do stultify wholesale societies' plans by a high price and wide variety policy. Yet some attempt at rationalizing consumption is certainly worth making.

[1] It is not yet certain, however, whether it would also be in harmony with the English law of libel, which is far stricter than the American.

§ 4. *The Problems of Integration*

Compared with the procedure of the capitalist wholesaler the methods of co-operative wholesale organization effect striking economies. This, however, does not mean that the co-operative movement has no wholesaling problems still to solve. On the contrary, the unique position in which the C.W.S. and the S.C.W.S. find themselves gives rise to peculiar difficulties which require careful study.

The co-operative wholesale societies are producers as well as wholesalers. This leads to a series of big economies such as the bulk purchase by the C.W.S. of raw materials for a whole group of similar plants; but it leads also to a whole complex of problems connected with the attempt to balance the producing and the wholesaling interests. The wholesale societies might consider it their duty simply to supply retail societies with the goods demanded, indifferent whether these goods were co-operative products or not; on the other hand, they might prefer to push the products of their own works. Surprisingly enough, the policy of indifference seems often the one which is consciously or unconsciously adopted. The wholesale society salesmen do not always take advantage of the opportunities offered to them to gain the technical knowledge which would enable them to explain the merits of co-operative products, and do not always help the works by sending reports of market conditions and of the reasons why retail societies may prefer non-co-operative products. Also wholesaling has a certain vested interest.

The co-operative movement stands for the elimination of all middlemen's expenses. Accordingly it tries to encourage the ordering of its products by retail societies direct from works. These direct sales, however, tend to eliminate the wholesaling staff at headquarters, and the flat rate of commission paid to headquarters on all sales from any one works, whether the sale is direct or indirect, is an attempt to maintain the wholesaling interest. In the upshot, a "double track" sales organization is created. Retail societies order products either direct from works or from the wholesale departments, the proportion of direct to indirect purchasing varying enormously in different industries. In addition to the wholesale department's staff, works must often keep a commercial sales staff. This double track is partly the inevitable result of the need for inspecting certain unstandardized sorts of goods before purchase, an inspection most conveniently

conducted by the retail society buyer at a wholesale warehouse. But there remains the problem how to avoid duplication and how to secure co-ordination and specialization of function to the optimum degree.

Beside their "straddling" position as both wholesalers and producers, the co-operative wholesale societies are unique in the number of lines they distribute. Though specialization is increasing, many wholesale society salesmen are not specialized to deal wholly with one line, and they may be tempted to push their easy lines at the expense of lines difficult for the inexpert to explain, which might, however, ultimately prove best sellers.

There is no question that, in its wholesaling activities, the co-operative movement has developed a most efficient system, but in carrying out and administering this system, sources of inefficiency may be found. In the history of the wholesale societies, wholesale distribution preceded production, and the distribution of each of the separate lines has on the whole not yet been as closely integrated with their production as efficiency requires. Where the production of any one line of goods is on a sufficient scale, greater efficiency might well be obtained if works and sales were under the same management. This vertical integration is the practice of the more highly developed capitalist multiplant organizations, such as Imperial Chemical Industries, where each group of similar works is in charge of its own sales.

Clearly the most efficient degree of vertical integration and lateral specialization between the lines of any given trade is a problem in scientific observation and experiment. It must not be left to historical accident and the inertia of tradition.

Chapter 24

THE EFFICIENCY OF CO-OPERATIVE PRODUCTION

§ 1. *The Extent of Co-operative Production*

A first test of the degree of efficiency attained by production within the consumers' co-operative movement must be the extent to which that production supplies the goods and services bought by consumers. The total sales to consumers of retail societies in Great Britain (apart from Ireland) was in 1933, £196,000,000.[1] This retail value was equivalent, according to the Registrar of Friendly Societies, to £152,000,000 at wholesale prices.[2] How much of this aggregate value was produced within the co-operative movement?

At first sight, when the gross outputs of the four sorts of producing society are added, it appears that the movement has a high degree of vertical integration and self-production. In round figures, the production of the three wholesale societies amounted to £31,000,000; the production of the local federal societies and productive societies to £5,500,000; the production and services of retail societies (at wholesale prices) to £31,000,000, and foreign imports (mostly food) from co-operative sources to £10,000,000. Neglecting the possibility of some export of co-operative products, production within the co-operative movement appears to account for £77,500,000 or 51 per cent. of the £152,000,000 that was the wholesale value of the total sales to consumers.

This appearance of a large degree of self-production is, however, fallacious. There is considerable double counting of materials as such and as embodied in products, and the high value of non-co-operatively produced raw materials entering into co-operative products is not allowed for. If, instead of giving gross values, the value of raw materials is subtracted, and only the true value added by co-operative production is counted, then the net value of output thus given will present a different picture.

[1] The statistics used in this discussion must be largely based on the Report of the Chief Registrar of Friendly Societies. This defines the place and time for which information can be given. At the time of writing the last available report giving particulars of wholesale value of retail sales referred to 1933.

[2] Report for 1934, p. 15.

Fig. 43 above shows the *net* value of the products of wholesale societies, federal and productive societies, and retail societies as given by the Registrar of Friendly Societies, and adds an estimate of the net value of services of federal and of retail societies, left out of the Registrar's definition of production. These services are, in the case of federal societies, mainly laundering, and the gross output is obtainable

FIG. 43

EXTENT OF SALES TO CONSUMERS PRODUCED WITHIN THE CO-OPERATIVE MOVEMENT GREAT BRITAIN, 1933

	Net Output £	£	*Index Percentage*
The Total Sales at wholesale prices of Retail Societies		152,000,000	100
Wholesale Societies	10,203,000		
Productive Societies:*			
Production	2,488,000		
Services†	700,000		
Retail Societies:			
Production	10,916,000		
Services	1,500,000		
Total Home Production		25,807,000	
Products of Foreign Co-operative Societies Imported		5,500,000	
Total Co-operative Products		31,307,000	
Subtract Services and Goods included above not sold to British Co-op. Consumers or not entering into such sales	2,000,000		
		£29,307,000	19·3

* The term "productive society" used by the Registrar includes local federal societies (described in Chapter 9) as well as producers' co-operatives (described in Chapter 10).
† Mainly laundries.

from departmentalized information in *Co-operative Statistics*.[1] The services of the retail societies are mainly laundering and catering, but include hairdressing, undertaking and charabancs. Their gross value is difficult to abstract from the all-in "value of own productions and services" (which even includes transport and cartage) given in *Co-operative Statistics*.[2] The estimate shown in Fig. 43 is based on various sources, in particular a departmental analysis of twenty-two

[1] 1933, p. 737.

[2] 1933, p. 715.

large societies and the Registrar of Friendly Societies. It is again an estimate of net values, since services such as laundering and undertaking use considerable raw material and supplies.

To the total home products and services of the co-operative movement must then be added the products of foreign co-operatives or of properties abroad of the British co-operatives. The C.W.S. imported such (largely dairy and meat) products to the value of £4,500,000, the S.C.W.S. to the value of £1,000,000, and only a small proportion was re-exported.

The gross total of co-operative production and services thus appears to have been £31,307,000 in 1933, but this total includes some services and goods neither sold to co-operative consumers nor entering into goods so sold. In the first place, some of the products of productive societies are sold to non-co-operative buyers at home, and some wholesale societies' products, e.g. tea, are sold to co-operative organizations abroad. Secondly, the wholesale societies and the retail societies undertake such auxiliary activities as building and engineering, repairing of waggons or printing, the product of which does not form part of the aggregate of sales to consumers, though its value is included in the value of products in the table.

The value of the *net* product of these activities must be subtracted before we can find the true proportion of the value of the co-operative sales to consumers that was created within the movement. This subtractable net value may be estimated at £2,000,000, equally divided among wholesale and retail societies. The final result is that of the £152,000,000 (at wholesale price) of goods and services sold by co-operative retail societies to consumers, £28,407,000 was produced within the co-operative movement, a proportion of 19·3 per cent. Clearly there is here room for development, and a problem to be faced. Of the four sources of co-operative production, two are of outstanding importance: the production of the wholesale societies and the production of the retail societies. Each amounts to some £10,000,000 of net value, and a main problem that arises is whether wholesale and retail societies are not competing needlessly in the same field, without logical division of function.

§ 2. *Analysis of Production by Retail and Wholesale Societies*

This competition within the consumers' co-operative movement between retail and wholesale societies is not, however, as equal and

comparable as it appears from the statistics. If we analyse what is officially referred to as production, it will be found that, following the practice of economists, the word production is taken to include services. Fig. 44 (a) shows, under the main headings, the precise activities that constitute the retail societies' "production".

FIG. 44 (a)

ACTIVITIES INCLUDED UNDER PRODUCTION OF RETAIL SOCIETIES

(A) PERSONAL SERVICE:
- Hairdressing.
- Undertaking.
- Catering.
- Hire of Vehicles, Charabancs.

(B) PROPERTY SERVICE:
- Boot, Shoe, and Clog Repairing.
- Painting and Decorating.
- Laundering.
- Furniture Removals.
- Blacksmithing.

(C) PRODUCTION OF PERISHABLE OR INTRANSPORTABLE GOODS:
- Baking and Confectionery.
- Slaughtering.
- Dairy, Milk Pasteurization, and Bottling.
- Building.

(D) PRODUCTION OF OTHER GOODS:
See Fig. 44 (b).

Some information is available from the returns of the Registrar of Friendly Societies as to the comparative importance of these activities. In the production of perishables (Group C) baking and slaughtering take first place. "In the retail societies the dominating productive operations are baking and slaughtering, the former in 1932 accounting for nearly one-half and the latter for nearly one-sixth of the aggregate net value created." The remaining groups are less important in the values created. Here information is obtainable from societies' returns submitted to the Co-operative Union. Taking

England and Wales in 1935, only 55 retail societies engage in hairdressing, 104 in catering and 122 in the (final!) personal service of undertaking. In the property service group, 345 societies engage in shoe repairing, 61 in painting and decorating, 16 in laundry work, 27 in metal working. Activities of the same sort also form the bulk of the trade of the local federations[1] entirely financed by neighbouring retail societies. This trade consists almost exclusively of the property service of laundering or the perishables production of baking and milk processing.

The method of grouping of the chief activities adopted in Fig. 44(a) is important in deciding whether their performance by *national wholesale*, *local federal*, or *retail* societies is the most efficient and rational plan.

The activities of laundering, boot and shoe repairing, blacksmithing, painting and decorating, are services performed upon goods owned by the customer, and are thus grouped as property servicing; the activities of hairdressing, catering and undertaking are performed upon the person of the customer himself and are thus grouped as personal service. Now personal service obviously must be performed locally, at or near the customer's residence, and the same is true of property service if the property is immovable, like a house that is being decorated. If, like old shoes or soiled linen, the property is movable but costly to transport, relatively to its value, then the requisite repairing or laundering must still be performed near the customer either by local federal or by retail societies.

The remaining activities displayed in Fig. 44(a) may all be classed as the production of goods, or at least as single processes in such production; but it does not follow that they would all be performed more efficiently by the national wholesale societies. Local production may yet be more efficiently performed near the customer's residence either by local federal or retail societies, because, as in the case of baking, slaughtering and milk-pasteurization, the product will deteriorate if time is taken up in transport.

A logical, rational planning of the production of goods within the whole co-operative movement would involve the large-scale provision at some central plant or plants of those processes that do not, like personal and property services or the production of perish-

[1] Recorded in the co-operative statistics of the Co-operative Union partly under Productive Societies, partly under Distributive Federations.

ables, require to be performed near the consumer. Such processes appear in Fig. 44 (a) as Group D and are detailed in 44 (b). The national wholesale societies would at first sight appear the logical organization to undertake this production, to the exclusion of the local federal and retail societies. This exclusion is by no means the case, as the second column of figures in Fig. 44 (b) shows. In actual fact there is no clear-cut demarcation, at least for those of the Group D industries that are listed in Fig. 44 (b).

Although these industries do not need to be so near the consumer as baking or slaughtering, it must be realized that nearness is a matter of degree. Many of the Group D industries will save considerably in transport and communication costs if they are near their market. The grouping must not, therefore, be taken as absolute, but merely as an indication of what the probably most efficient location of plants will be: Group C will probably be dispersed, although baking and even slaughtering can, in fact, be centrally performed at some distance from the consumer, as the example of the Chicago stockyards and the American mechanical bakeries shows. Group D will probably be centralized. There is a further group of industries almost certain to be centralized. This group, call it E, includes such industries as textile spinning and weaving, fellmongering, hosiery and shirt-making, margarine, soap-making and chemicals, hardware, and pottery; industries left entirely untouched by the retail societies but hotly pursued by the wholesale societies.

This centralization in the hands of the wholesale organization does not, however, necessarily mean centralization of all the plant. Plants may physically be dispersed, while their control and organization is thoroughly centralized. The C.W.S. has its administrative office centralized in Manchester, but its plants are dispersed, even where these plants produce similar goods. Thus it is possible for the C.W.S. to effect a compromise between the economy of a larger-sized, centralized plant in any one industry and the economy of plants located near the market, whereas the local retail societies, being by nature dispersed, must be content, unless they federate, with one or a few smaller plants serving only the immediate neighbourhood. Federation of retail societies for production of goods in Group D has taken the form of financing productive societies rather than exclusively controlling them. The industries in which this plan has been adopted are confined to boot and shoe, value of sales (1935)

£684,423, bookbinding and printing, sales £780,482, and textile clothing and hosiery, sales £1,932,468. The sales of all other industries amount only to £168,979.

FIG. 44 (b)

GOODS PRODUCED BOTH BY RETAIL SOCIETIES IN ENGLAND AND WALES AND BY THE C.W.S. IN 1935

Group D	Production by Retail Societies		Production by C.W.S.	
	Number of Societies	Gross Value of Sales. Wholesale Prices	Number of Plants	Gross Value of Sales ‡
		£		£
Meat Slaughtering	275	5,908,851	1	171,082
Meat Preparation* (including bacon curing)	150	2,451,130	6	943,901
Tailoring, Dressmaking, Millinery and Mantles	190	733,204	9	820,268
Flour Milling	10	627,730	9	8,003,660
Farming and Nurseries ..	78	480,706	12	138,415
Cheese and Butter	11	268,287	9	96,104
Furniture	41	145,806	5	861,065
Jam and Preserves	3	130,197	3	1,534,844
Footwear Manufacturing ..	38	76,138	7	1,589,838
Drug Packing	4	22,855	1	231,206
Tobacco	2	81,477	1	1,310,233
Saddlery and Leatherwork ..	4	2,294	2	54,872
Shirts	5	7,634	4	511,886
Tea Blending	1†	322,110	2	4,889,605

* The figures for the C.W.S. consist largely of bacon curing, which is only a small item in the retail society figures.

† This society buys its tea in bulk from the E. and S. Jt. C.W.S.

‡ For difference from Gross Output see note 10 Fig. 23 and also note to Appendix 1.

We shall first discuss in § 3 the organization whereby the C.W.S. conducts industries of types D and E, but then shall proceed in § 4 to the question why, in the more debatable Group D industries, the retail societies participate in production.

§ 3. *The Organization of Production by the Co-operative Wholesale Societies*

(1) *Problems of Industrial Planning under Modern Technique*

The productive organization of the Co-operative Wholesale Society is that of a multi-plant integration. The organization consists

of a large number of separate plants in different places integrating a wide variety of different sorts of goods. This integration is horizontal —several plants are making the same sorts of goods; vertical— several plants are engaged in the successive stages or processes of the same sort of production; lateral—the plants are making different products at the same stage; and diagonal—several plants are engaged in auxiliary *services* (e.g. printing) needed by the organization as a whole.

This complex organization has grown up piece-meal. Plants were started one by one as the possibilities of sale for their particular products opened up with the growth of co-operative distribution. Yet, though the organization in its present form was not planned as a whole, a general scheme is discoverable, and it is important to enquire how far the present actual arrangement conforms to principles of efficient organization, applicable to all business concerns whether co-operative, capitalist or state-controlled.

Taking for the present the sum total of production of various kinds of goods as given, three groups of questions arise:

(1) Is the given total of any one sort of production distributed horizontally among the most efficient number of plants? In short, is the size of plant an optimum for the industry?

(2) Are the several plants making any one sort of product situated in the places where they are likely to be most efficient? In short, is the placing or location of plants efficient?

(3) Are the sorts of production in which the whole organization engages efficiently distributed as between, and as within plants? Should the several plants specialize more or should there, on the other hand, be more vertical, lateral or diagonal integration within the plants?

The answers to these questions are interrelated and all of them depend upon certain technical considerations.

Capitalist industry has developed a technique of specialization of individual men and specialization of machinery and equipment. Labour has been divided so that one man does one job and nothing but that one job, while many of the jobs that labour used to do are now done by mechanical and chemical processes. Moreover, machinery and chemical processes have themselves been specialized to perform one job and one only. This tendency to one-purpose men and one-purpose equipment certainly increases efficiency up to a point. It

cannot be rejected by non-capitalist organizations, particularly if they are competing with capitalist organizations. Certainly in Russia, where the State has a monopoly, specialization of men, mechanization and specialization of machines, is being deliberately fostered as part of the plan for industry and agriculture. We shall assume, therefore, that this trend in technique will not be resisted in co-operative production, but will be an integral part of the co-operative plan.

The actual degree of mechanization and specialization that is possible differs, of course, in different industries and in the different branches of any one industry. These possibilities are wide wherever uniform materials are being refined or otherwise converted into further uniform materials, as in grain-milling, in the manufacture of chemicals such as soap and paints, of margarine, lard and biscuits, and in cotton and wool spinning and weaving. The possibilities of mechanization are narrower where a complex product is being "assembled" as in tailoring, and in boot and shoe and furniture making. But even in an assembly industry, any one standard product that can be mass-produced will lend itself to mechanization and specialization in production.

This development of mechanization is clearly confirmed in the statistics of production costs that the C.W.S. has collected half-yearly for each one of its factories. Each type of costs is calculated in shillings and pence per pound of gross total selling value of output. The cost of material is largely irrelevant to the issue of mechanization and specialization, and the costs should, therefore, be recalculated as a percentage of total conversion costs, i.e. total cost minus cost of materials. Mechanization involves higher costs in (1) annual depreciation, (2) interest, (3) repairs and renewals, (4) power, water, heat and lighting; and a correspondingly lower cost in productive wages. Adding items (1) to (4), an analysis of the C.W.S. accounts in the years 1928–32 for all factories in the industries concerned gives these machinery costs as about 50 per cent. of all conversion costs in the woollen mills, where yarn was converted into cloth, but as only about 19 per cent. of all conversion costs where boots and shoes were being assembled, and 14 per cent. where cloth was being assembled into shirts or clothing. In printing the machinery costs ratio to total costs fell between the two, at about 23 per cent. A less detailed analysis was made for other industries in the year 1932 only. This showed high machinery costs relative to total conversion costs in flour-

milling (48·8 per cent. at the Manchester mills), in soap making (36·7 per cent. at Irlam), in margarine (33·3 per cent. at Higher Irlam), in biscuit making (38·5 per cent. at Crumpsall) and cotton weaving (27·3 per cent. at Radcliffe). In short there is a fair degree of mechanization in most of the industries engaged in by the wholesale societies, but the precise degree varies greatly as between industries. This variation in mechanization will condition and limit, as we shall see, the size, location and scope (i.e. integration) of the plants in each particular industry.

(2) *Size and Dispersion of Plants*

Once the trend towards specialization and mechanization is accepted, it follows that a policy of large-scale production is also accepted. When a worker or a machine performs one function or one job, and nothing but that function or job, there must be enough to keep him or it fully employed. Moreover, the several sorts of specialists, staff and operative, and the special machines, that co-operate in producing the finished product, are bound to have widely differing capacities for output. To "balance" their output a very large scale of operation may, on the "principle of multiples", be necessary, not to mention the large-scale economies of massed reserves and bulk transactions.[1]

Specialization and mechanization will only be more efficient than unspecialized handwork up to a point, and that point is determined by the scale of production. Adam Smith pointed out that division of labour is limited by the extent of the market. Since co-operative production can only be sold in co-operative markets, productive specialization in the co-operative movement depends upon the proportion of co-operative products bought by retail societies. This does not mean that the policy of specialization and mechanization should always wait upon the prospects of a sufficient sale. A sufficiently large market may only be obtained when goods are produced sufficiently cheaply; and this cheapening can only take place if specialization and mechanization are adopted. Scale of production, and the degree of specialization and mechanization, are mutually interdependent. The degree of specialization is conditioned by the possible market and scale of production; size of the market and scale of production are conditioned by the economies possible through specialization.

The policy of scattered locations of plants in the same industry to

[1] P. Sargant Florence, *Logic of Industrial Organization*, pp. 16–20.

cater for a scattered market thus comes into direct conflict with that of specialization and mechanization and its interdependent policy of large-scale operation. The more production is centralized in one large plant, the further that production will be removed from the market formed by the mass of consumers. Beyond a certain point what is gained by additional economies in production may be lost by additional expenses of transport, communication and keeping goods fresh. The possibilities of larger-scale operation, we have already seen, are sacrificed in the performance by retail societies of baking, meat-slaughtering and milk pasteurization, and personal and property services have by their very nature to be performed at or near the customer's residence. Bespoke tailoring, dressmaking, millinery, and shoemaking, since they require easy communication with the customer also require local as against central location. It is only where population is highly concentrated that large-scale operation is not incompatible with local production.

Thus plants must frequently be on a small scale in order to be near their market. They may also have to be on a small scale to be near their source of supply, a restriction that applies naturally to farming, but also applies to milling of inland wheat where materials are relatively costly to transport.

Though plants may have to be locally dispersed, it does not follow that these plants must be locally administered as by the local retail societies. The Co-operative Wholesale Society may and does own and control a number of scattered plants in the same industry and can thus plan sites so as to adjust the opposing economies of proximity to market and large-scale operation with a view to obtaining the maximum overall economy. Thus the several C.W.S. plants in any industry are not likely to be widely scattered over the country as similar plants would be if they were controlled by the local retail societies. In most of the industries where the economies of mechanization, specialization and large-scale operation outweigh the transport economies of local production, retail societies do not, in fact, produce at all. In the extreme case, the C.W.S., in spite of large total production, may have only one plant for the country as a whole, as, for instance, for oil and cake (Liverpool, 1,383 employed, gross output £789,000), margarine (Higher Irlam, 1,170 employed, gross output £2,560,000) and hosiery (Huthwaite, 1,232 employed, gross output £440,000). In other cases, the C.W.S. may have only a few

large-scale plants, each placed in the centre of a planned market. Thus the London mantle and ladies' garment works supplies the Southern market, the Manchester works the Northern. Similarly Scotland forms in itself a district market for the plants of the S.C.W.S. centred chiefly in Glasgow. In many industries, the C.W.S. plants are most of them larger than the typical size for the industry generally. This is true of boot and shoe, tailoring, grain-milling, furniture and printing. In the remaining industries engaged in, such as cotton weaving, soap, tobacco, biscuits, C.W.S. and S.C.W.S. plants are of typical size, not smaller. The policy of production by national wholesale co-operatives thus tends definitely away from smaller-scale organizations.

(3) *The Location of Plants*

Once production is centralized in one or only a few plants, a further advantage possessed by the C.W.S. over the local retail societies is that its plants can be concentrated where, for the country as a whole, the factors of production are found most efficient. For the location of its works it can choose not only the places where large-scale economies are most efficiently balanced against low transport cost to market, but also where (*a*) the cost of labour and other services, (*b*) the cost of material and supplies, and (*c*) the cost of management, are at a minimum in relation to their productivity.

(*a*) If we look at the maps of C.W.S. factory sites (Fig. 45), it is seen that the factories are usually placed in the centre of the industry concerned, where non-co-operative factories of the same sort are also found. The C.W.S. woollen mills are found in the woollen industry centres—Batley and Bradford in the West Riding, and Buckfastleigh in the West Country wool district. The C.W.S. cotton-weaving mills are placed at Bury, Radcliffe and Hebden Bridge,[1] in the East Lancashire cotton district. The C.W.S. boot and shoe factories are placed at Leicester, Rushden, Northampton and Derby, in the main East Midland shoe district, as well as at Norwich, Street[2] and Leeds, where a smaller group of boot and shoe plants are found. Similarly, the Tyseley cycle and aluminium works and the Dudley light metal and electrical works are placed in the midst of the Midland metal-working district. In these districts the required skilled labour is obtainable on the spot and the auxiliary supplies and services specially needed by

[1] Fustian clothing factory as well as cotton weaving. [2] Tannery.

the industry are readily obtainable. These localizations of particular industries yield what economists call external economies, that is, economies not dependent on the internal development of any one plant, but accruing externally to any plant owing to its proximity to other plants making the same sort of goods and using the same sort of services and labour.

With the growth of mass production, and the greater use of semi-skilled labour that can soon learn its job, location at the sources of specialized labour is, however, becoming less important. Other changes in technique, such as fuel economy and the transmission of power, or road transport, may also render obsolete any given centre of industry. To be at this centre in the changed circumstances is not necessarily rational.

(*b*) There are other reasons for location in addition to being near the centre of the industry as a whole. Most C.W.S. flour and provender mills are found at the ports of entry of the imported raw material—Hull, Dunston-on-Tyne, Manchester, Silvertown, Avonmouth, Liverpool; C.W.S. furniture works are placed at the ports of entry of timber, such as London, Bristol, Pelaw near Newcastle, and Manchester. Proximity to ports importing raw materials also accounts for the sites of the margarine works at Higher Irlam, the oil and cake mills at Liverpool, the soap works at Manchester, Dunston and London, and the fish-canning factory at Lowestoft.

Raw material raised at home has also determined the sites of C.W.S. plants. Fellmongery plants have been established at Pontefract and Buckfastleigh in the cattle and sheep-raising areas. The Reading preserve works is close to fruit growing; the Wymondham brush works close to woods owned by the C.W.S. Naturally, too, the C.W.S. coal mine and farms must be on the site of the mineral deposits and of the soil suited for the crop produced. But since the C.W.S. does not engage to a great extent in the primary and the heavy industries, for reasons that will appear later, location at the site of raw materials does not play a great role in co-operative industry as a whole.

(*c*) In works location policy, the C.W.S. and the S.C.W.S. have attempted to reduce the cost of management as well as that of skilled services and materials. A policy has been adopted of placing works of different kinds in "clusters" around central administrative offices. This policy makes communication easier between the higher administrative offices and the plant managers. The outstanding example is

the veritable trading estate of the S.C.W.S. in the Shieldhall district of Glasgow. English examples include the Broughton furniture, tailoring, shirt, mantles and underclothing works in the Manchester area, and the Pelaw drysaltery, clothing, printing and furniture works in the Newcastle area. In the London area, there is a further cluster of works at Silvertown, comprising flour mills, soap works and grocery production factory. And in the Birmingham area, a cluster of works is growing up in the Tyseley quarter, making cycles, light metals and aluminium ware. These clusters of plants originated, many of them, around the wholesale headquarters in Glasgow, Manchester, Newcastle and London for the convenience of those marketing organs, and they catered for the clustering of co-operative population in their neighbourhood; but they also cater to administrative convenience. At the beginning headquarters, as Mr. Redfern remarks,[1] could keep an eye on them.

(4) *The Degree of Integration*

Some sort of plan has emerged in the number and size of C.W.S. works in any one industry and in their location at certain sites; the question yet remains how far this dedication of certain plants to certain industries is itself rational. Furniture making is distributed among plants in London, Bristol, Pelaw, Birmingham and Manchester, and soap making in London, Manchester and Newcastle. But is it the same sort of furniture or soap that is made in each plant, and how is the practice in these cases related to efficiency?

There is a strong argument for specialization of plants each upon a single branch of industry. It is only in this way, indeed, that a large-scale production in the strict sense can be obtained. Several factories all engaged in making a hundred sorts of furniture—bedsteads, cupboards, tables, chairs, etc.—may not produce one of these sorts on a large scale. The largest scale production of bedsteads, of tables, of chairs, would be obtained only if all supplies of each sort were produced in one factory. The rationalization programme of big capitalist combines of several factories does, in fact, include this plan; there has been a deliberate retreat from the policy of laterally integrating different branches of an industry towards a "disintegration".

Among the C.W.S. plants making similar products there has always been a certain degree of specialization. The products, though similar,

[1] *The Story of the C.W.S.*, p. 77.

may not be quite the same, and the processes of production may be different. There are several large plants all engaged in printing; but one of them (Reddish) specializes in periodical printing and photogravure and blockmaking; while another (Longsight) specializes in lithographic work, line and monotype printing and carton making; and others (Leicester, Reading, Pelaw) specialize in letterpress, ruling and binding. Printing by machinery is conducted at Longsight, Pelaw and especially at Reddish to a greater extent than at Leicester. In shoemaking, four factories specialize on ladies' and nursery shoes: Leicester Wheatsheaf on medium grade ladies' shoes and crêpe sandals, Enderby on girls' footwear, Norwich on higher grade shoes and Derby on sandals. Five factories specialize on men's footwear: Rushden on ordinary men's footwear, Northampton on higher grades, Bedford on heels, Leeds on boys' footwear, and Heckmondwike on working men's heavy boots. In cotton weaving, Bury specializes on fine cotton cloth and wide sheetings, Radcliffe on coloured cloth.

Plant specialization is being deliberately planned in other industries. In furniture, the Birmingham and London works are specializing in bedroom suites, while Bristol is specializing in upholstery and Radcliffe in tables and chairs and desks, and Pelaw concentrates on special orders usually to meet individual customers' requirements. In clothing Pelaw makes high-grade clothing for bespoke orders from retail societies; Leeds and Brislington specialize in mass-produced ready-mades; Crewe concentrates on juvenile clothing. This policy is connected with that of group management, since it is only where a common control is granted over all plants in the same industry that such plants can be planned to dovetail with one another.

The necessity of location near the market remains a restraining condition upon this plan of cutting up an industry and isolating a single section in one place, but for goods that are fairly transportable and durable, full efficiency requires the centralization of each section for a large-scale production that will permit the use of special machinery and a specialized staff.

Different products and processes can be disintegrated into several specialized plants, but each of those plants may of course remain under one administrative control. The C.W.S. is the outstanding example of such an administrative integration; no one capitalist firm or combine produces such a variety of products. But in this administrative integration lurk the same dangers of small-scale inefficiency

as in plant integration. Some reason must be given why the C.W.S. has undertaken to produce such a wide variety of products.

The main reason is that the consumers in the co-operative retail societies demand certain varieties of goods each in sufficient quantities to permit some approach to large-scale production from the C.W.S. The C.W.S. does relatively little advertising and hence cannot standardize these demands and direct them into fewer channels; moreover, it is in the peculiar position, unlike other producers, of having its market limited to the societies, over whose buying policy it has no actual control. Thus the C.W.S. is at the mercy of the consumer, and in producing any sort of goods must satisfy the consumers' demands in all their (possibly unreasonable) variety. Within each industry and branch of an industry there tends to be a wide-flung lateral integration of products.

The C.W.S. does not produce finished consumers' goods only. Its integration is also vertical and includes the earlier intermediate processes of the clothing industry (fellmongering, cotton and woollen weaving), of the boot and shoe and other leather industries (fellmongering and tanning) and of the biscuit industry (flour-milling). The soap works also obtain materials from the by-products of the margarine works. For brush-making, the C.W.S. owns woods in Norfolk; the sawmill at Wymondham cuts the trees up; and the Leeds and Wymondham brush works produce the finished article. In the primary processes of production, the C.W.S. extracts its own coal at Shilbottle, grows some of its own tea in India and Ceylon for blending in London and Manchester, and some of its own fruit for jam-making, and carries on dairy and other farming more or less successfully for butter and cheese-making.

On the whole, however, the C.W.S. has been cautious of getting too far away from the making of the final consumer's goods. It does its own printing and produces certain equipment, tools and supplies for the shops, offices and transport services of the retail societies, such as paper bags, cartons, scales, tins, cans, stationery, delivery cycles, and some erection of machines and buildings; but it does not engage in many other "diagonally" related, auxiliary trades. The C.W.S. does not, for instance, make the machines it employs. Nor does the C.W.S. engage in the basic processes of the iron and steel, the chemical or the paper-making industry. In this plan of diagonal and vertical disintegration, the C.W.S. is up to a point rational.

With its market limited to the demands of the co-operative retail societies, there is no scope for the large-scale basic processes or for large-scale engineering, which require wide outlets in a great number and volume of finishing trades. On the other hand, the paper supplies required by co-operative shops are on so large a scale that a large-sized paper mill might perhaps be fully employed. If resources are adequate, the co-operative movement should neglect no chance of efficient enterprise. The possibilities of trading expansion will be taken up later, after the discussion of investment policy.

(5) *Deviations from Economic Plan*

So far we have assumed that all plant locations, sizes and integrations can be explained on economic grounds, applicable to any business organization. In short, that the existing plants of the C.W.S. are the result of a reasonable plan for industrial efficiency and for reduced costs and prices, and that if the C.W.S. could start afresh to-morrow with these ends in view, their plants would integrate the same sorts of production, would be of much the same size and in much the same places as to-day. When, however, we look into the actual motives for starting and developing any particular works, it is obvious that other factors have entered into the situation and have created discrepancies between logical plan and fact. Some of these factors are connected with a specifically co-operative policy; others are incidental to all modern production. These incidental factors can be summarized in three paragraphs.

(1) It is always difficult to anticipate the amount and direction of demand or the success with which the management of any particular works will meet any given demand. New inventions, changing tastes, whims of fashion, and changing technique may turn the best planned plant into a white elephant. On the whole the market for which the co-operative organization caters is of the less whimsical and less fashionable sort, but uncertainty when producing in anticipation of voluntary demand is bound to involve some speculative planning that speculated wrong. The C.W.S. has been acutely conscious of the dangers of anticipation, and has perhaps been over-inclined to wait for a lead from the results of capitalist enterprise before embarking upon large capital investments in new ventures.[1]

[1] See Chapter 27, § 3.

(2) Even if anticipation is correct, it will need time before the plan takes full shape. Thus some plants will be inefficient because they are still growing into the full production that was planned, or the inefficiency of other plants may be due to a necessary period of readjustment towards a different plan from the original on which they were built.

(3) Besides uncertainty and the pains of growth and readjustment, there are more specific difficulties in the achievement of a logical plan. When a new works is planned, the logically most efficient site may not be available; or land and existing works of the sort required are available though not ideally suited. In a number of cases, the C.W.S. took over works belonging either to co-operative retail societies, or to co-operative productive societies; in other cases, it took over the buildings of more or less derelict capitalist concerns.[1] These works were often not planned, in either position, layout or equipment, to accommodate the sort of production or productive methods required by full efficiency. They looked to the past rather than the future. Again, where parcels of land were bought that were too large for the immediate purpose in hand, the remaining vacant land has often been assigned later to works of another kind. The administrative clusters of works have indeed often been the result of such land purchase rather than of deliberate planning at the outset. This, however, was not true of Shieldhall where a trading estate was planned from the outset. Shieldhall is an example of planned enterprise which has been hampered by the area of the estate becoming too small to accommodate the expanding plants. The price of the adjoining land has increased greatly, thus sending up capital costs whenever the S.C.W.S. has had to make purchases for new factories or extensions.

These causes of deviation from plan are incidental to all modern production, co-operative or non-co-operative. But co-operative differs from capitalist policy in deliberately considering the interests and sentiments of workers and members of co-operative societies, instead of making maximum profit to entrepreneurs and shareholders the prime consideration.

Consideration of the interests of workers has led to a certain hesitation in displacing men by machines, or in dismissing men when trade is poor. This may explain the somewhat lower value of net output for a given number employed that is disclosed when the

[1] Redfern, *The Story of the C.W.S.*

returns of co-operative works are compared, according to the 1930 census of production, with the average net output per head of all firms in the same industry. In fact, for six of the eleven more important co-operative industries with comparable sorts of output,[1] the net output per head of the co-operative works was lower than the national average. These industries were wool, hosiery, clothing, biscuit-making, printing and furniture. For two industries, boot and shoe and preserves, the net output per head was much the same, and for three industries, cotton weaving, grain milling and soap, the net output per head of the co-operative works was distinctly higher.

Consideration of the sentiments of members of co-operative societies has sometimes led, particularly in the past, to factories being established or maintained in certain localities because the members of the local societies pressed for them.[2] There is a sentiment that works and factories should be fairly distributed throughout the land. This sentiment may coincide with business efficiency where works must be located near the market for their products; but it will run counter to efficiency if the economies of centralized large-scale production in one or a few places outweigh the economies of proximity to market. In this case the consumer-member will in the end suffer by paying a higher price than he need.

But there is a more important and a very real service that co-operative production renders the consumer; and that is to serve as his protection against monopolistic exploitation. In at least three industries where the C.W.S. is engaged, there is a danger of capitalist monopoly —flour-milling, soap making and margarine. Here the C.W.S. makes a point of charging a price somewhat below that of the non-co-operative works. We have shown that, in at least two of these industries, the net output per head in C.W.S. works is well above the census average for the country as a whole. It is also true that these three industries are among the four most profitable undertaken by the C.W.S.[3] This service of protection, though originally strategic in

[1] The output cannot ever be entirely comparable. Co-operative products supply on the whole the poorer consumer and the output per head may for this reason have a lower value. On the other hand the cheaper products can be more easily mass-produced and machine-made, thus increasing the output per head employed. Net output per head is not, of course, the final test of efficiency; it is used here as some measure of mechanization of co-operative plants as compared with the average of capitalist plants in the same industry.

[2] Redfern, *The Story of the C.W.S.*

[3] See § 5 below.

purpose, is of economic advantage to the C.W.S. itself. Presently, in the interests of the consumers, prices might be reduced still further.

§ 4. *Reasons for Retail Society Production*

The reasons for expecting large-scale mechanized and specialized production to be more efficient than small-scale production of goods have been set forth in § 3; and it was pointed out that dispersion of plants so as to be near the market for their goods was the main obstacle to the complete concentration of plants in any one industry. The C.W.S., since it could effect the most efficient compromise between dispersion and centralization of plants, might thus be expected to undertake all production of non-perishable and transportable goods. This, however, is not the case. As Fig. 44 shows, many of such goods are in fact produced by the English retail societies (since comparison is made with the C.W.S. discussion will be confined to the English societies; there is very little retail society production in Wales); and we must now enquire into the reasons for this apparently illogical plan. These reasons fall into seven groups. Retail societies (1) may have sufficient sales to permit large-scale production on their own account, (2) may be dissatisfied with wholesale society production, (3) may specialize in the hand-made bespoke branch of the industry, (4) may desire an integrated production, (5) may make use of local materials. Then (6) psychological factors cannot be neglected, and (7) there is always the inertia of tradition to be reckoned with.

(1) Some retail societies are large enough or, though not themselves large, can sell sufficient of their products to neighbouring societies to produce on a scale comparable with that of the wholesale society plants, and thus involving much the same economies, especially that of mechanization. Such industries as furniture production, tailoring, milk processing, cheese and butter making, tea packing, mineral water manufacturing and flour-milling come in this category.

Flour-milling is undertaken by ten retail societies, some of them working for sale to neighbouring societies. Four of those retail society mills fall into a distinct large-scale group—in 1935, at or above the £45,000 output per year level: Barnsley, with an output of £227,750, Leeds with an output of £225,000, Leicester with an output of £61,500, Lincoln with £55,000. The two largest (Barnsley and

Leeds) might possibly be compared with the scale of production for the four smallest C.W.S. mills, which range from a £915,000 output at Dunston to an output of £400,000 at Oldham. Where the ratios of wage costs to gross output vary definitely for different plants in the same industry using the same sorts of raw material, one may assume that the degree of mechanization displacing labour is mainly responsible for the difference, and for want of a better index take this ratio as an inverse measure of mechanization. This percentage wage cost was, in 1933, 5·5 for Barnsley and 4·4 for Leeds, and is comparable with that of all the seven C.W.S. mills, with wage percentages of 3 to 4, indicating similar mechanization devices. But the two smaller mills of the larger-scale retail society group showed a higher wage cost—6·8 and 8 per cent. respectively. Large economies are obtainable by mechanization in the industry, but mechanization probably does not pay when the output is much below £50,000 per annum.

In cheese and butter making, the interdependence of scale of production and mechanization is very evident. Many of the retail societies produce on only a very small scale and these have wage costs per gross output varying from 30 per cent. to more than 100 per cent., implying that in some cases the wage bill is actually more than the total value of sales. The retail societies producing on a middling scale, not above £7,000 a year, have wage costs of 2 or 3 per cent. This wage percentage approaches that of the three C.W.S. butter factories, *averaging* 1·5, on an aggregate gross output of £1,750,000. It is possible, therefore, that *some* retail societies can make butter and cheese on an economically large enough scale to justify local production.[1]

Twelve only of the 157 tailoring works of the retail societies were

[1] The retail societies have decided not to extend their production of milk products. This decision was taken in September 1936, when the Co-operative Milk Trade Association, having to face difficulties arising from the operations of the Milk Marketing Scheme and wishing to be prepared for the introduction of a marketing scheme for milk products, agreed to accept a policy of centralization of production and processing, and contracting for milk supplies proposed by the C.W.S. The policy assumes that the C.W.S. is able to supply the liquid milk requirements for balancing supplies of all the retail societies in England and Wales, and therefore proposes that the manufacture of milk products should be centralized in the C.W.S., thus giving conditions for planned development to offset the restrictions of the marketing schemes. Retail societies, therefore, agreed not to ask the Marketing Board for new licences for milk products production, but to support the C.W.S. in its application for new licences and expanding production.

on a scale producing in 1935 more than £10,000 a year. Some of these, such as the Royal Arsenal's plant, with a wage percentage of 18, appeared to have found their scale of production large enough to justify mechanization of production, but an output below £5,000 seems to make mechanization difficult. The majority of these smaller scale productions have wage costs above 40 per cent. of gross value.

Of the forty-one societies engaged in furniture making, bedding and upholstery, two had an output in 1935 above £10,000. One of these, the London Society, seems to have found its output (which is comparable with that of the smaller C.W.S. works) large enough to adopt mechanization.

In comparing, as we have, the sizes of plants owned by the C.W.S. and the retail societies, it must be borne in mind that the C.W.S. does not necessarily concentrate all its production in one plant, and that, where several factories are employed in one industry, some of them may actually be smaller and less capable of mechanization than the single factory of a large society.

(2) Some retail societies may not be satisfied with the price or quality of the product. Though large-scale operations make certain economies more possible, it does not follow that these economies will actually be seized upon. Hence certain societies may feel that in spite of a smaller market and smaller resources they can, in fact, be more efficient and economical than the wholesale society.

This may be the reason for the setting up of small-scale factories by certain more enterprising retail societies, such as Royal Arsenal. This society, which produces for itself 11·5 per cent. of its total sales, probably has the largest number of different productive sections of any retail society, including tailoring, curing of English bacon, tea blending and jam and fruit preserving. Jam is also made by the Barnsley and the Plymouth Societies. These three jam-making works owned by retail societies are all on a small scale. Their annual gross outputs were, in 1935, £67,670 for Royal Arsenal, £35,820 for Barnsley and £26,600 for Plymouth, as compared with £837,780, £376,330 and £292,300 respectively for the three C.W.S. works at Middleton, Reading and Acton. Even if a retail society feels itself only equally efficient to the wholesale society, it may wish to employ local labour and capital, or may be manufacturing-minded, as explained under (6) below.

(3) Some societies cling to hand-made products usually made "to

order", even though the modern trend is towards ready-made machine products. There appears to be a demand for bespoke tailoring, dressmaking, millinery and even shoemaking, though this latter is rapidly dying out. Bespoke furniture making is also demanded, especially in the North.

The production without machinery of goods to order does not gain much in efficiency by large-scale operation. Almost all the costs are prime, such as materials and skilled labour, and are strictly in proportion to the output, whether that output is large or small. This explains the great number of retail societies engaged in tailoring on a very small scale. The output of the six C.W.S. clothing factories in 1935 ranged from £29,000 (Crewe) to £163,600 (Leeds), but only ten of the retail societies (those with over £10,000 output) had tailoring establishments in the same class as these works. The remaining 145 societies (or 92 per cent. of those stating their output) had a gross output of less than £10,000 a year.

Bespoke goods must be made within reach of the customer, for he or she must be there to choose the materials, decide upon the design, and, if necessary, control the final adjustments. Where clothing is concerned, there are personal measurements to be taken and one or more fittings on, and possible alterations after completion. It follows that little is lost by small-scale production and much is gained by locating near the scattered customers. The average production per plant of the 44 retail societies engaged in dressmaking, the 38 retail societies engaged in boot and shoe making, and the 47 retail societies engaged in millinery (see Fig. 44) is negligible compared with that of the C.W.S. plants. Here, then, retailers' production appears to be mainly of the bespoke or even repair and property services type, which it is rational to scatter in small workshops near the scattered customers.

(4) Some retail societies may wish to integrate their production. Two groups of products stand out that have been integrated vertically, so that societies can in the later stages of production use their own products as materials. The first group consists of farm produce, cheese and butter, and milk pasteurization; the second, of milling or self-raising flour production and baking and confectionery.

Integration will not lead to efficiency unless each and every branch or stage of production integrated can be operated on a sufficient scale to yield economies; otherwise it would be cheaper to buy the

products from outside sources. Thus only the very largest societies can afford to integrate, and even then only for those products for which there is a large demand among their members. This explains why it is only in the food-producing industries, where demand is extensive, that integration is aimed at, and why it is only in nine societies that milling is integrated with baking, and only in six societies that cheese and butter factories are integrated with farming.

Some diagonal integration of auxiliary work appears when retail societies do their own building of shops and other premises. This may account for ninety-five societies returning building among their activities.

(5) Some societies use local raw materials that are at hand, and thus gain in transport to plant what they lose in small-scale non-mechanized production. Grain-milling is still predominantly carried on throughout the country in small plants partly using local materials. This may explain the small-scale flour-milling operation of the six co-operative societies that mill less than £45,000 a year.

Local production is obviously necessary in farming and few additional economies can here be obtained by large-scale administrative units such as the C.W.S., unless farms are deliberately specialized.

(6) Psychological factors cannot be neglected. Among the motives inducing societies to undertake production are local patriotism and manufacturing-mindedness—psychological states, rather than economic or business reasons.

Local patriotism shows itself in the desire to find employment for local labour and possibly local co-operative capital too. Such patriotism often believes in the "sales value" of local production. The appeal of "Buy British" is thus brought still nearer home. These incentives to set up production are often reinforced by a certain production-mindedness among the members in large towns devoted to a variety of manufactures, and this whole complex of feelings may account for the statistical fact that own productions forms a greater proportion of the sales of societies in manufacturing cities than it does in any other societies.

The highest percentages of production by retail societies per value of their sales are found in the Birmingham and the Rochdale districts, and the next highest in the Metropolitan, the Bolton, the Airedale (including Leeds and Bradford), the Somerset (including Bristol) and the Lincoln districts. This last district is influenced by the large

milling operations of Lincoln and Peterborough. All the other districts mentioned include large manufacturing cities. It is probable that the retail societies of these city districts engage in production partly because their members are manufacturing-minded, and partly because they see the psychological value of possessing their own works in their own city when wishing to attract new members or to increase the purchases of old members.

Not the cities, but the more scattered industrial and mining areas like South Wales, Northumberland, Durham and the fringes of the North-western manufacturing district (Rossendale, Macclesfield and North Lonsdale districts) and Northamptonshire, have the highest sales per member.[1] Hence a high percentage of production is not necessarily associated with keenness of members, indeed a tendency towards the opposite relation is discoverable. Comparing the cities and the mining and scattered industry areas, the lower sales-per-member cities tend to be those having the higher percentage of retail society production.

(7) Finally, there are no doubt cases where production is carried on by retail societies, not because it is as efficient as or perhaps more convenient than production by the C.W.S., but simply because of the inertia of tradition. Some small societies do not even cover their wage costs in such lines as tailoring and cheese and butter making; and there are one or two large societies (e.g. Leeds, Barnsley, Leicester, Derby) which seem to spread their productive activities over a multitude of lines, producing each on too small a scale to be efficient, and creating difficulties of co-ordination. Here there may be a tradition of independence and a local sentiment that overrides economic considerations.

It must be emphasized that the whole complex of retail society production did not arise as one plan, but that the structure was added to here and there, now and then, as each of a multitude of independent local societies thought fit. Retail society production is thus likely to show discrepancies from a rational plan, far more numerous than those shown by the wholesale society, but that is no reason for continuing and perpetuating an illogical tradition.

[1] See Chapter 5, p. 78.

§ 5. *Differences between Capitalist and Co-operative Production Costs and Profits*

Comparisons have hitherto been made within the co-operative movement: the problems of co-operative production have been discussed without stressing differences from capitalist procedure. In an industrial society predominantly capitalist, any rapid co-operative progress must mainly be at the expense of capitalist expansion. Whether the division of the market reached at present is merely to continue, or whether co-operative production is to advance relatively to capitalist production and possibly ultimately to displace it, depends upon the comparative efficiency of the two alternative systems of organization. At the outset, therefore, a comparison of co-operative with capitalist production is essential to the understanding of the problem facing co-operative production, whether performed by retail, local federal, or wholesale societies.

An examination of the individual items of production costs of the various co-operative plants shows that they differ from production costs of comparable capitalistic plants in many respects. Some co-operative production costs are actually or potentially lower and others higher. The reasons for this difference are twofold. One set of reasons may be called institutional reasons, arising out of the peculiar character of the institution of consumers' co-operation. The other set of reasons can be summed up as economies of the large scale of organization common in the co-operative movement. These latter reasons are, of course, indirectly institutional, since the large scale of many co-operative plants is rendered possible by institutional factors. It is not possible to obtain comparative figures for costs of capitalist production; a quantitative comparison is therefore not attempted and the main factors likely to lead to low or high co-operative relative to capitalist production costs are merely listed. Further, it is difficult to say how far co-operative organizations take full advantage of the potential economies connected with their peculiar method of organization. To some extent they do, but not uniformly. Some of the suggested economies may be potential rather than actual. The reasons which might lead to lower co-operative costs are given first, and then those leading to higher costs; in each case, reasons are given under four main heads—labour costs, material costs, overhead costs and general costs. On the whole, the industries in which the co-operative move-

ment has hitherto engaged have relatively high material costs and low labour costs. Economies in material costs are likely therefore to be particularly important.

The main factor leading to lower labour costs in the co-operative movement is the lower labour turnover. Costs of training workers, both skilled and semi-skilled, are thereby reduced.[1] Further, the steadier output of co-operative plants leads to a more efficient use of employees' skill. Cost of management and administration is definitely lower than in capitalist plants, but it is a question how far this saving is a wise economy.

There are two institutional causes of lower raw material costs in co-operative plants; and one applies only to retail societies. All retail societies obtain raw materials at the same price from the national wholesale societies, and hence small local societies are able to obtain supplies more cheaply than similarly-placed capitalist producers. The cash trading principle of the co-operative movement, together with the good credit standing of societies, makes many capitalist suppliers anxious to secure co-operative trade. In consequence, they are often offered special terms, especially in lines of goods in which there is considerable competition. The remaining economies in raw material costs which the national wholesale societies and other large productive units obtain, are not directly institutional, but the result of the size of the undertakings. The wholesale societies' productive units are often larger than non-co-operative units and, consequently, these societies can obtain cheaper bulk rates than many capitalist firms; very often they can buy direct from the producer, excluding the capitalist jobber or importer. Further, the capital at the disposal of the movement makes buying ahead of need possible. This policy is adopted whenever prices are low.

One of the main savings of overhead costs is that of the low interest rates on capital. This is partly due to the method of raising capital which, during high interest rate periods, effects large economies. During low interest rate periods, the interest paid by the C.W.S. on share and loan capital of the member societies is not much below the short-term market rate. It is, indeed, below the rate at which a small industrial undertaking can obtain capital, but the size and credit standing of the C.W.S. would probably enable it to obtain short-term

[1] For a full analysis of costs of labour turnover, see P. Sargant Florence, *Economics of Fatigue and Unrest*, Chapter 6.

capital on the open market—if that were its practice—at a rate no higher than the rate it now pays to its member-societies. The conservative financial policy in the past has usually resulted in a considerable writing down in the value of capital goods; in consequence, depreciation and interest charges are reduced. Interest, risk, and depreciation in relation to stocks may be less because co-operative plants produce more to order and less for unknown markets than is usual in the case of non-co-operative plants. There is a lower interest cost for outstanding debts, because of the practice of prompt payment within the co-operative movement, and there are practically no bad debts between societies. Members' loyalty leads to a reduction of expenditure on advertising and salesmanship and to a steadier demand, with a consequent better utilization of plant capacity and permanent staff. Payment of directors, auditors, and managers is lower; no bonuses are paid on turnover or profits; and co-operative societies are spared the expense which public companies incur in floating the company and issuing capital. A factor, partly institutional and partly the result of wide lateral integration, is the saving on financial costs as a result of the transfer of goods without money payment, and the pooling of cash, materials, power, vehicles, and stock. This lowers both interest expenses and premiums for risk-bearing.

In addition, there are certain general economies which cannot be specifically assigned either to labour, material, or overhead costs. The plentiful supply of capital which is available for co-operative societies allows of a maximum mechanization; while large-scale organization permits the lowering of transport costs as a result of the more complete utilization of vehicles, and permits the economies of producing goods in large batches. The large scale of the co-operative wholesale societies may secure economies as a result of plant specialization, while maintaining a common multiplant control over them. This saving is actually obtained in the case of C.W.S. furnishing, clothing, shirt, and shoe factories.

The causes which tend to make co-operative production costs higher than capitalist costs are all institutional. The most important of these are labour costs. Trade union rates of pay for day and piece workers obtain in all plants. Not only are these rates higher than non-union rates, but they are also rigid. There are relatively high night and week-end rates in force in productive plants throughout the movement, and overtime rates are paid to employees higher up in the

income scale than is usual in capitalist undertakings. Most employees are paid a day rate, and some have a guaranteed week which is paid whether or not work is available. Many co-operative factories employ a probably higher proportion of older men and women, and less juveniles than similar capitalist undertakings, so that their wages costs are likely to be higher even than those undertakings which pay trade union rates. This question has been considered in Chapter 21; it is, however, impossible to determine quantitatively the actual difference in costs resulting from these preferential wage conditions. There is often a considerable difference between the speed of working in co-operative and capitalist factories since, as a general rule, co-operative undertakings are opposed to the use of modern speeding-up measures. Some societies definitely will not tolerate piece work, even in trades where this is the usual practice. The wholesale societies, on some occasions, have had to abandon an attempt to introduce piece work because of trade union opposition. Spreading available work among workers rather than dismissing them is a usual practice. When about eighty workers became superfluous in a C.W.S. dry-saltery works, they were not dismissed, but carried on for about eight months and then were gradually laid off or transferred elsewhere; this is but one illustration of a common practice. Productive employees of both wholesale and retail societies often obtain special privileges such as educational facilities, time off with pay, sickness, accident, and death benefits, pension schemes, holidays with pay, and welfare services. Although these privileges are found in some capitalist undertakings, they are far more widespread in the co-operative movement.

Usually societies patronize co-operative sources of raw material, even if their prices are higher than prevailing market prices. Raw materials which cannot be bought from co-operative sources are almost always obtained from union firms—i.e. from firms granting trade union conditions to their employees. Both these factors are likely to increase raw materials costs to some extent.

There are four institutional factors making for higher overhead costs in co-operative production. It is a common practice, in the first place, to spread work among all the factories of the wholesale societies during the slack period rather than to close one or two and work the others to capacity. The reason for doing this is to avoid dismissing labour and offending retail societies in the area in which the factory

is situated. In consequence, some co-operative factories may be running below capacity for part of the year. Secondly, the working week is often shorter in co-operative factories, and shift working is practically never adopted. Some of the advantages of high mechanization are therefore lost. Thirdly, when a co-operative society buys a capitalist undertaking, the price paid for goodwill is an entire loss, since the private business connections of the firm cannot be used. Fourthly, since retail societies are the owners of the wholesale undertaking, they tend to adopt a more critical attitude towards its activities. Complaints are more frequent, and the process of meeting them usually involves more of the manager's time and energy.

Finally, there are certain institutional factors leading to increased general costs. Some co-operative plants are consistently postponing rationalization in order to avoid creating technological unemployment, and by insisting that orders should be carried out in their own part of the country, retail societies frequently prevent the most economical utilization of plant and the maximum mechanization of industry. Since co-operative plants are essentially serving permanent customers, there cannot be any attempt to attract custom by offering attractive looking but cheap and shoddy goods. It is impossible to obtain the full advantages of large-scale production, owing to the refusal of the customer to accept even partly-standardized goods, and in particular owing to the demand that the co-operative movement should be able to copy all the main capitalist lines. In consequence, in many lines of production, instead of the C.W.S. producing a number of varieties comparable with the principal lines produced by any one of the well-known producers, they produce a very much larger number in their endeavour to copy each producer and to rival him in his own lines. This practice of small-scale production inevitably leads to loss compared with the saving which would be possible if co-operative plants provided a reasonable range and variety and took full advantage of rationalization and standardization.

The conventionally accepted capitalist test of efficiency is not low cost so much as high profits. Profits or surplus are the result of a subtraction sum. They are the difference between the total revenue of a firm and its total costs. Hence, high profits or surplus partly depend upon low costs. But they also depend upon the amount of the total revenue, and this introduces a new element in measuring efficiency. Total revenue is the joint result of the amount of sales

effected and the price at which the sales are effected; hence profit or surplus measures the success of the price and sales policy. Total profits or surplus might be high on account of a price that was high in relation to costs and yet was not so high as to discourage sales. On the other hand, total profits or surplus might be high because, with an elastic demand for the product, a low price only just above costs encouraged a huge increase in sales.

The notion of efficiency always implies some balancing of costs against income or sales, although an idea of efficiency which balanced costs against sales on the psychological level, in terms of human sacrifices and human satisfactions, would not necessarily take profit —a balancing on the monetary level—as a final measure of efficiency.[1] However, we are still living industrially in a competitive capitalist world with the emphasis on monetary profits as a test of efficiency and survival. Comparison of the sucess of co-operative and capitalist production must for the present, therefore, be made on this level of monetary profits or surplus.

The rate of profit is calculated in capitalist firms on the capital involved. The accessible sources of information about public joint stock companies, such as Mathieson's Stock Exchange Record, give interest and dividend on the capital subscribed by the public in the form of debentures or shares. Profit on the basis of the total liability capital, including reserves ploughed in, is not available. This nominal rate of profit on the value of the capital as originally subscribed is separately given for each type of share—dividend on ordinary, preference, preferred, deferred, etc.—and the debenture interest is also separately recorded. The comparison required is with the total profit on total subscribed capital; hence the separate rates of dividend and interest for each company must on paper be put back into the pool and an all-in rate of profit calculated. Two to nine well-established companies were taken as a sample for each comparable industry according as the records of the companies were available, and the pooling principle applied to all companies in each industry. Thus a joint stock company rate of distributed profit, given in Fig. 46, was obtained for each industry from the total dividend and debenture interest of all the companies selected, divided by their total of shares and debenture capital. This calculation was made for each of the seven years 1928 to 1934 and the median of those seven annual rates picked

[1] See P. Sargant Florence, *Economics and Human Behaviour*, pp. 90–93.

out; that is, the rate coming in the middle (i.e. fourth) when the seven yearly rates are placed in order of magnitude. To get the total profit, an addition must be made to dividends and interest distributed for that portion of the profits appropriated to reserves instead of being distributed. These disclosed reserves, like the disclosed reserves appropriated from co-operative surplus, serve the two purposes of stabilizing distributed profits (or surpluses) and of reinvestment in trade. During the seven years 1928–34, it appears from figures of representative companies in the sort of industries engaged in by the C.W.S., collected by the *Economist*, that the ratio of reserve appropriation to debenture interest plus dividends varied greatly from year to year and industry to industry, but averaged around 15 per cent.[1] To obtain estimated rates of total profits the rates of capitalist interest plus dividend must therefore be increased by this proportion.

To compare with these capitalist rates of profit on the nominal value of subscribed capital in specific industries, co-operative rates of profit or surplus on its subscribed shares and loans are not so easily available. The C.W.S. does not divide up its capital between several industries or plants. The nominal value of the subscribed share and loan capital of each plant must be reckoned in proportion to the known nominal value of the assets of the plant in the form of fixed capital and stocks (the chief items) and to that part of C.W.S. residual debtors and cash which the relative sales of the plant justifies. This indirect calculation of subscribed capital involves the subtraction from the asset capital of the year's surplus and also the subtraction of the value of reserves ploughed in during past years, since these reserves increase asset capital without adding to subscribed capital. The calculation is complicated and cannot be given here in detail, but the average results (the median year of 1928–34 is again used) are accurate enough to justify grading industries according to the ratio the C.W.S. total rate of surplus on capital bears to the total rate of profits (distributed and undistributed) of the joint stock companies.[2] The fifteen

[1] Taking the *Economist* Miscellaneous Group of manufacturing industry for the twenty-eight quarter years between 1928 and 1934. In half the cases the ratios "reserved" lay between 8 and 22 per cent. For all groups of companies the average ratio reserved was slightly higher than for the miscellaneous group—about 17 per cent.

[2] The calculation of comparable profits and surplus formed part of the study of co-operative production made by Mr. H. Mars. It is hoped that work done by Mr. Mars on this subject will subsequently be published.

Cotton weaving had to be omitted for want of comparable joint stock companies.

industries where the C.W.S. employs more than 600 persons are so graded in Fig. 46. The percentage in brackets refers to the ascertained average (median) rate of distributed profit on the capital of the joint stock companies.

FIG. 46

ANNUAL RATE OF SURPLUS ON C.W.S. CAPITAL IN VARIOUS INDUSTRIES COMPARED WITH JOINT STOCK COMPANY RATES OF PROFITS

AVERAGE FOR 1928–34

Ratio: C.W.S. Surplus compared with profits	*Industries (Median rate of distributed profits in brackets)*
Less than ¾	Coal (4·0 %), Woollens (7·3 %), Clothing (9·1 %).
Between ¾–1¼ (Similar)	Tobacco (7·0 %), Margarine (19·4 %), Hosiery (7·1 %).
Between 1¼–2	Footwear (6·8 %), Shirts and Overalls (4·4 %), Corsets (7·5 %), Preserves (6·0 %).
Between 2–3	Furniture (1·7 %), Printing and Bookbinding (6·5 %), Grain-milling (10·1 %).
Over 3	Biscuits (6·1 %), Soaps (8·1 %).

The conclusions which may be drawn from Fig. 46 are remarkable. Among the fifteen industries that are listed, only three—coal-mining, woollen mills and clothing—showed a lower co-operative rate of surplus, and five industries—printing and bookbinding, grain-milling, furniture, soap, biscuits—showed a co-operative rate of surplus more than twice the capitalist profit rate.

The comparatively low rate of profits on joint stock capital may be due to more inefficient use of "real" capital equipment and stocks, or may be due to an inflated valuation of such capital in the subscribed capital. Inflation is not unknown to occur as a result of high preliminary expenses, including promoters' profits and underwriters' margins in floating the issue, or as a result of a "watered" valuation of assets taken over.

The results from this study of production reinforce the conclusions reached on the distributive side of co-operative trading, that one of the leading efficiencies of the co-operative system is the economy in subscribed capital. For a given capital the surplus is in most industries high compared with the profit on capitalist joint stock companies, or,

to put it the other way round, a given surplus can be obtained with a comparatively low capital. Moreover, the bulk of the profit need not be distributed back to the proprietors of the capital in order to maintain the flow of investment of capital. Instead of only 15 per cent. of distributed profits being appropriated to reserve, and a rate on capital of from 4 to 19·4 per cent., according to industry (see Fig. 46),[1] being distributed in debenture interest and dividend on shares, the C.W.S. pays for all its capital by a low interest rate (now, 1937, averaging about 3 per cent.); the remainder of the surplus goes back into trade or into inside investments for the society.

§ 6. *Specific Problems of Co-operative Production*

In productive activities the co-operative movement has many economic advantages over alternative systems and has made some progress towards supplying its own wants. But if co-operative production is to be extended by further reduction of costs and prices, and a larger proportion of co-operative sales are to be co-operatively produced, more economic thinking must be applied to practical problems of the co-operative organization of production. Co-operative methods of organization have certain peculiarities and hold out the likelihood of certain consequences; and it is with an eye to these specific trends within the co-operative movement that policies have to be planned and practical problems solved.

Among the institutional and large-scale features affecting the costs of co-operative as compared with capitalist production, four may be singled out as peculiarly different from the simple capitalist forms of production on which economic theory is so largely based. Two of these features relate to the large scale of co-operative organization. Co-operative firms such as the C.W.S. or S.C.W.S. are not only very large, but also own a number of plants in different industries; and a wide variety of products and services are provided.

The two further features to be singled out relate to co-operative institutions. There is the feature of federalism, as displayed in a rim of production by retail and special productive societies revolving around the hub of wholesale society production; and, last but not least,

[1] Between 1920 and 1934 the dividend on ordinary shares recorded by the *Economist* for some two thousand joint stock companies averaged (median year) 9·5 per cent.

democratic ideals extend from consumers' control to a consideration of the interests of those employed greater than may be expected from capitalism. The consequences of these four distinctive features will be considered in turn, and after that, in a separate section, account must be taken of the consequences of the competition that co-operators must still carry on in the quality of their products.

(1) The variety of products and services provided is perhaps the most obvious feature. Services include insurance, banking, investment trusts; products include almost all the ordinary needs of working families. The inclusion of all these transactions under a single control denotes an immense lateral integration; and such integration opens the way for many economic difficulties. A multitude of goods, each possibly made on a small scale, checks, as explained above, the development of large-scale "batch" or mass production, and the wholesale societies do not appear to have striven very hard for a standardization that would reduce the number of lines of any one product and thus increase the scale of operation in those that remained. In 1935, the Irlam Soap Works of the C.W.S. were producing 190 different varieties, and the Dunston Soap Works 117, including 24 household tablet soaps, 5 carbolic tablet soaps, 13 dry soaps, 6 soft soaps and 49 toilet soaps. The shirt factories were producing over 1,000 different types and sizes of shirts and were in addition required to execute special jobs without an increase in prices. The C.W.S. Brush Works were making 1,600 lines, half of them stock, the other half special lines.

This over-abundance, not to say redundancy, of styles is largely the result of trying to match all the capitalist lines. It is true that a bold policy of simplification and reduction of lines would require advertising to canalize public demand into fewer channels, each of which would permit mass production.[1] But the economies effected in producing a few goods each on a large scale would certainly outbalance advertising cost, if advertising were preceded by scientific market research. When a multitude of goods of all varieties are jointly produced, it is not always the case that all or even the majority of the goods produced are making a profit. As between products of different industries made in different factories, it is known that in

[1] This canalization to permit mass-production efficiency is indeed the chief economic advantage of advertising, although the numerous advocates of advertising usually miss the point. See P. Sargant Florence, *Logic of Industrial Organization*, pp. 84-5.

1935, out of the forty odd industries engaged in by the C.W.S., one industry, flour-milling, made more than one-third, and another, soap, made one-quarter of the total disclosed surplus of all C.W.S. plants, while four industries, soap, flour and provender, margarine, and drug and confectionery packing, made approximately 80 per cent. of the surplus. Six industries suffered a loss. The same problem occurs, in relation to the comparative profits of its different lines, within *one* industry making a multitude of articles. Here, unfortunately, the facts are not so accurately recorded, and it is not until scientific costing methods are applied within the plant that absence of surplus or sheer losses are revealed in the production of certain lines.

The problem how far to go in selecting fewer articles of any one sort for production, and how far to standardize and mass-produce those selected, cannot be solved without cost accounting. It is not a problem that most capitalist organizations have by any means solved, but since the co-operative organization produces in greater variety than any other industrial organization, it is a problem of particular importance to Co-operation. Since 1930, a central costing department has been set up by the C.W.S. at Manchester, and this department has discovered several articles made at a loss in various plants. Clearly the costing department must be developed so that it may examine the costs of every plant as a matter of routine.

(2) The wide variety of co-operative services and products are provided by separate establishments or plants in different places and of different sizes. This arrangement, as has been shown, makes it possible for plants to be located at the point of minimum transport costs and to be of a size to incur minimum technical and management costs while at the same time enjoying the economies of large-scale marketing, higher control and finance.[1] It does not follow, however, that advantage will always be taken of this possibility. In the C.W.S., the purchase of raw material is usually made centrally for the plants in the same industry, and sales of products are at least supervised centrally; finance is completely centralized. Here, large-scale organization certainly effects economies. Large-scale control, however, is a more difficult problem. Too much control at headquarters is liable to result in bureaucracy and lack of adaptability, yet some control services are most efficiently performed by full-time specialists that

[1] See E. A. G. Robinson, *The Structure of Competitive Industry*, chapters ii-vii on optimum sizes for different functions.

only the whole multiplant organization can afford to employ full time. Such services are those of cost accounting just mentioned, and of standardization of control accounts and statistics, making possible the comparison of results between different plants in the same industry.[1] The whole organization may also afford a large research department for observation and experiment in mechanical and chemical technique.

The C.W.S. works at Silvertown standardized the packing of breakfast cereals in 1935. This standardization now makes it possible to use one of the same huge packing machines for packing all the various breakfast cereals, and ensures the full utilization of this expensive but efficient machine tool. The findings of central research can be similarly diffused in problems affecting the efficiency and welfare of labour.

The main economy of the large multiplant organization is, indeed, the spreading of centrally-acquired knowledge throughout its plants;[2] thanks to their size, the C.W.S. and the S.C.W.S. have here an opportunity that is granted to few capitalist firms. The managers of the several plants in any one industry and managers even of plants in different industries have much to learn from one another and might profitably meet together to discuss such common problems as costing, or working incentives, or selection and training of staff, along the lines already pursued by the Management Research Groups of private industrialists. The differences found in the management efficiency of C.W.S. plants, even in the same industry, are remarkable and show the economic advantage that may attend inter-plant consultations promoted by the higher control of the multiplant organization.

(3) This opportunity of spreading knowledge is also present within the loose federal trade association around the hub of the C.W.S. and S.C.W.S. constituted by retail societies and special productive societies. The wholesale societies help retail societies in their distributive problems as a matter of course. The C.W.S. architects, for instance, design shops. But in production problems, wholesale services are at present more limited. The C.W.S. provides a service of audit and financial accountancy for retail societies' works. The engineering department of the C.W.S. (since 1934 divided up into engineering, dairy equipment and service departments) advises many of the retail societies in problems of power plant and installation of

[1] See Jenks and Clark, *The Trust Problem*, 4th ed., p. 48.

[2] See P. Sargant Florence, *Logic of Industrial Organization*, p. 15.

machinery, electrical installation, heating and ventilating, and motor and garage equipment.[1]

In certain services, and in non-transportable product industries,[2] retail and local federal society production may fill a useful role beside wholesale society production. Once this federal plan of production is consciously adopted, the large wholesale societies can deliberately give such aid and advice to retail and federal societies on their production problems as may best be rendered by large-scale research, training and organization.

(4) Advice on the efficiency and welfare of labour has been referred to as a function likely to be best performed by the central multiplant organization. In the co-operative organization, with its democratic ideals, such advice and corresponding policies must hold a particularly important place. Labour costs have been shown to be high in co-operative plants owing to less speeding up and more liberal and congenial conditions of labour generally. These conditions have largely been won by the insistence of the trade unions on the working-class sympathies of the movement; they have not been the result of scientific enquiry on the part of the co-operative control.

Co-operative managers indeed are no more versed than capitalist entrepreneurs and managers in knowledge of the physiological and psychological conditions favourable to human efficiency and welfare. Co-operative works, even in the same industry, vary greatly in physical working conditions, such as noise, lighting, ventilation and extraction of dust and fumes, and the safety movement does not appear to be more advanced than in capitalist works as a whole. There are no departments for psychological testing and investigation such as are found in model capitalist firms, nor have any researches into the effect of hours of labour, of ventilation, or of vocational selection upon output, accidents, or labour turnover, been carried out in C.W.S. or S.C.W.S. plants. There is little scientific study of the easiest motion for the operator or the most comfortable equipment for him to use, or enquiry into the most effective methods of training or of providing financial or non-financial incentives; reliance, indeed, seems to be placed on simple time-wages to a greater extent than in capitalist enterprises.

[1] The engineering department of the C.W.S. was set up primarily to advise the plants of the C.W.S. itself. In fact the department may only do so if instructed by the Grocery or Drapery Committee, or if the works manager calls it in for consultation. The position is almost the same as if the works and engineering departments were separate firms.

[2] See above, § 2.

And yet what an opportunity the co-operative movement presents for a really scientific testing of the efficiency of various policies based on unbiased individual records! Scientific management, so called, has often proved, in the hands of the capitalist employer, an instrument for the exploitation of the worker.[1] He is speeded up, loaded up, and his work intensified so as to give the highest short-period results in quantity of output. The co-operative movement, granting as it does high security of tenure, looks, on the contrary, to long-period results extended over the whole working life of the worker and should, if true to its principles, include in results quality of output and workers' immunity from accident, ill-health and premature invalidity. There is still a prejudice in democratic circles against the use of science. But there is no reason for avoiding expert advice and specialized skill if the expert and technician are the servants of democracy. Science is merely a means to an end. If the end is right, let science be used to gain that end as efficiently as possible.

§ 7. *Competition in Quality of Product*

Co-operative production is variegated and multiplant, it is federal, and favourable to the interests of labour. At the same time it must still remain competitive. Unlike state control of industry, co-operative control cannot order competition to cease in any industry. As a result co-operative production must make continuous efforts in order to keep up with its rivals and, if it so desires, to get ahead of them in satisfying public demands. There must be continual improvement and development as rivals improve their products and processes. This need is likely to grow in importance as co-operative enterprise leaves its loyal staple market and strives to reach new classes of persons and to provide new classes of goods.

Co-operative trading must have a policy for development as well as a policy for carrying on existing trade. The possible research services of the central office of a giant firm like the C.W.S. or the S.C.W.S. are nowhere of more value than in relation to such a development policy. The C.W.S. has a well-equipped laboratory for testing C.W.S. productions and its work might well be extended. Research includes laboratory experiments in developing new methods and

[1] For its lack of science, see P. Sargant Florence, *Economics of Fatigue and Unrest*, Chapter III.

products, and field service to examine customers' complaints about existing products. Such field service is at present liable to take up much of the time of the general manager of the single producing plant. Efficiency demands technically equipped marketing experts as well as productive engineers. In large American firms appropriations of funds for such development research staffs may amount to as much as 3 per cent. of sales.

Competition hinges upon price or upon quality. Price differences have been dealt with in other connections,[1] but the problem of quality differences requires special and detailed investigation. Quality covers such a multitude of virtues that a distinction must be made at the outset between the inner and possibly unseen and unsensed virtue of a product, and its outwardly visible (or sensible) signs, such as design or taste. A medicine may have an attractive label and a pleasant taste, but have no inner virtue, and clearly in this case it is the inner effects that are all-important. But for the majority of goods sold for a price, taste and design have important uses. Of two food products, equally nutritious, the tastier and nicer packed food will win in competition. Of two settees, equally comfortable, that with the better design will —or at any rate deserves to—win. Here, however, we run into complications. When it comes to furniture, popular taste is not necessarily the same thing as good taste. Any judgment made of co-operative designs and furniture or for that matter linoleums, pottery, or clothes, is likely to be personal to the author and not necessarily a reliable index of competitive strength.[2] Detailed investigation of quality, therefore, avoided aesthetic judgment, and was confined to an enquiry into "inner" virtue by means of chemical analysis, and an enquiry into popular taste by means of actual tasting on the part of a representative sample of the people.

The enquiry into popular taste was conducted by members of the Department of Commerce of the University of Birmingham, and the

[1] Chapter 5, § 2.

[2] The following passage from Dr. N. Pevsner's *Industrial Art in England* is, however, worth quoting: "I was particularly anxious to see factories belonging to co-operative wholesale societies and to interview their directors. . . . My idea was that there should be educational possibilities in co-operative enterprise which might have favourably influenced the appearance of products. This, I found, was a misconception. The design of the articles which I saw—and there were pieces of furniture, cutlery, pots and pans, linoleum, packages, etc., amongst them—was in no way better than that of similar goods produced by private manufacturers or limited liability companies with no particular interest in good design."

first step was to draw up the questionnaire described in Chapter 22, § 5. Of the informants answering this questionnaire (most of them co-operative enthusiasts), 62 per cent. did not consider co-operative products to be inferior and among these were some who were convinced of their superiority. Thirty-eight per cent., however, thought that at least some co-operative products were inferior. The other answers of this rather large minority showed that a number of them (stated in brackets) did not buy the following goods in co-operative shops on account of inferior quality: men's clothes (21), women's clothes (21), biscuits (15), coffee (11), sweets and chocolates (11), jams and preserves (10), boots and shoes (10), bacon (9), sausages (9).

From questions about shopping in ordinary life, the enquiry proceeded to an experiment in behaviour under selected and controlled conditions. Thirteen articles of popular consumption were selected: margarine, cheese, tea, cocoa, malted milk cocoa (food drink), strawberry jam, marmalade, tinned peaches, tinned peas, lemon waffle biscuits, ginger drops, coconut crisps, and soap-powder. A bundle was then made up consisting of two samples of each article, one a co-operative and the other a non-co-operative product. Each of the samples of any one article was on sale in Birmingham at the same retail price, and all trade-marks, makers' names, etc., were removed, so that there was nothing to choose between the two samples except their taste and appearance. The bundles of articles were then submitted to sixty households for tasting, and individual members of these households (on the average 1·6 persons answered from each household) were asked to state which sample they preferred, that marked "S" or that marked "P". In an earlier trial test, the key letters adopted had been "A" and "B"; but since there might have been some bias towards preferring "A", the results of this test were neglected. As between "S" and "P" there seemed no ground for bias.

The sixty households were constituted of five distinct groups, numbered in ascending order of average income:

(1) Members of a Birmingham settlement club in a new housing estate. This group consisted largely of families moved from the slums and were relatively poor. Some of this group had participated in the earlier trial test.
(2) Members of the community club in the new housing estate.

(3) Members of a Mothers' Union of a church adjoining the new housing estate.
(4) Members of the Birmingham Co-operative Women's Guild.
(5) Middle-class people interested in the tests.

The results of the test are given in summary form in Fig. 47. In the case of each of the five groups, the thirteen articles are distributed over five columns according to whether there was a larger (two to one) or smaller majority in favour of the co-operative or of the non-co-operative sample product, or whether voting was equal. The lettering is similar to that in Fig. 40 of Chapter 22; "C" or "c"

FIG. 47

RESULTS OF TASTING TEST

Group of Tasters	Number of Answers	Number of Articles (out of 13) where Majority prefer Co-operative or Non-Co-operative Product				
		C*	c†	Equal Voting	p‡	P§
All Tasters	1,281	0	4	0	7	2
Settlement Club, Housing Estate	442	2	1	0	6	4
Community Club, Housing Estate	213	1	3	2	1	6
Mothers' Union	138	1	2	2	3	5
Women's Guild	228	4	2	1	4	2
Middle-class	260	3	3	0	2	5

* C = majority of 2 to 1 or more;
† c = majority of less than 2 to 1 } *For co-operative products.*
‡ p = majority of less than 2 to 1
§ P = majority of 2 to 1 or more; } *For non-co-operative (private enterprise) products.*

indicating a large or small majority in favour of co-operative products; "P" or "p" indicating a large or small majority in favour of products of non-co-operative, private enterprise.

On the whole, answers were in favour of non-co-operative products. Totalling all answers, there appear to be only four articles where a majority prefer the co-operative product, and nine articles where a majority (in two cases, a large majority) prefer the non-co-operative product. This preference for non-co-operative products is seen to be strongest in the lower income groups. The middle-class group voted for the co-operative product in the case of six, and for the non-

co-operative product in the case of seven articles. The Women's Guild members, as was perhaps to be expected from those accustomed to the co-operative products, were the group most favourable to them. A majority of the members voted in favour of the co-operative alternative in the case of six articles and a tied vote occurred in the case of a seventh, thus leaving six articles where the non-co-operative alternative was preferred even by these co-operative enthusiasts.

The very same articles submitted to tasting were then analysed by a chemist to discover the possible "inner" virtues (or vices) already referred to. Comparing co-operative and non-co-operative samples of the same article, little difference in chemical content and purity was found except in four cases. In two of these, the co-operative sample was found to be chemically the better product, and in the two others the non-co-operative. In three out of these four cases, the chemists agreed with the popular verdict—the chemically better received a majority of tasters' votes. In the fourth case, where tasters' votes were unfavourable to the co-operative product, chemical analysis was favourable. Evidently, it cannot be maintained that the co-operative products selected for the test are on the whole any better in taste or in chemical quality than the similar and similarly priced non-co-operative products.[1]

[1] The particular selection made was determined almost entirely by the practical difficulty of obtaining pairs of samples whose origin (co-operative or non-co-operative) could not be identified by the taster. The selection was, therefore, from the standpoint of proving anything for or against co-operation, random.

Chapter 25

CO-OPERATIVE INVESTMENT POLICY

§ 1. *The Practical Problem*

Any trading organization hoping to expand its activities must have funds to purchase the additional materials, stocks, and equipment required for that purpose. These funds may be obtained by borrowing, or may be set aside as reserves out of current revenue. The co-operative movement has used both methods. Retail societies borrow from their members by means of shares or loans; and the wholesale societies, as also productive and local federal societies, borrow from the retail societies. At the same time, retail, wholesale, productive and federal societies have been setting aside funds in the shape of general and special reserves and of depreciation allowances. In fact, as Chapter 6 shows, so successful have co-operative methods of raising funds proved that the movement has accumulated far more capital than is used in trade activities. Co-operative societies may legally invest their funds in securities or any kind of undertaking, and to-day the retail societies use only 39 per cent. of their capital in their own trade, they invest 17 per cent. outside, and lend the remaining 44 per cent to other co-operative undertakings. And the wholesale societies, to whom the bulk of the 44 per cent. is lent, use only 10·8 per cent. of their capital in their own trade, lend 6·2 per cent. to other co-operative undertakings, and invest as much as 83 per cent. entirely outside the movement.

The average capitalist producer or distributor is continually worrying how to raise capital or, as he puts it, how to finance his undertakings. Can he get his bankers to extend his overdraft; shall he make a new issue of shares on the market; can he borrow on mortgage, or issue debentures? These worries have no place in co-operative undertakings. When the co-operative system found a way of paying profits back to the consumer, thus gaining an assured market, it also found a way of raising capital, thus gaining assured funds. For the profits credited to the consumer, as dividend on purchase, were largely left on deposit as funds for the society. The pioneers built more symmetrically than they perhaps knew.

The capital problems facing the co-operative movement are not

concerned with the raising of funds for expanding its trade, but with the use of the funds already raised. They are problems not of finance but of investment, and can be summed up in two questions. Are the funds already raised insufficiently invested with a view to the general expansion of co-operative activities; and if so, in what particular directions should co-operative investment take place?

§ 2. *The General Extent of Co-operative Investment*

It would certainly not be wise for co-operative societies to invest in the movement up to the hilt. The capital they have to invest consists in the last analysis mostly in the withdrawable shares of individual members, and a wide margin must be left in a liquid form to meet possible emergencies. The very fact that there was no such margin would indeed tend to create states of emergency in the minds of members. There must be some outside investment in gilt-edged securities, but not necessarily the large proportion, amounting to over half of all investments, that is the rule to-day. The co-operative movement should arrive at some optimum proportion of cash and marketable outside investment per total assets, to which to work as a standard practice. Since over 80 per cent. of the subscribed capital of the movement is withdrawable, without or with various periods of notice, this proportion should be higher than that practised by industrial joint stock companies, but not necessarily as high as a bank's proportion. For the capital of industrial companies is not withdrawable, while at the other extreme, though banks have, like the co-operative movement, the bulk of their liabilities withdrawable, it is the central activity of banks to deal in withdrawable deposits and they must expect a much greater velocity of withdrawals.

There are no published figures of the average proportion of assets held by representative British industrial companies in the liquid form of investment in securities. But a composite balance sheet summing up the position of 544 American industrial corporations in 1926 showed, out of total assets worth $27,338,000,000, cash and marketable investment assets to the value of $3,112,000,000, or between 11 and 12 per cent. The large British joint stock banks hold several lines of liquid assets, decreasing in liquidity from (1) the cash reserves (normally amounting to the familiar 11 per cent. of deposits) to (2) money at call and short notice and (3) investments. Adding these three more or

less liquid items, their ratio to total assets may in different years be as high as 50 per cent. or as low as 33 per cent. Thus the standard proportion of cash and outside marketable investments per total assets should in the co-operative movement lie somewhere between 10 and 50 per cent. It may be noted that, in 1900, only 20 per cent. of the retail societies' capital was not invested in their own trading activities. To-day the proportion for the retail societies and for the whole movement is actually outside the *outsize* limit given by the banking precedent. Not only is this more than the margin required for all probable emergencies, but also, as will be shown in Chapter 27, there are undoubtedly urgent demands on co-operative capital for investment in the co-operative movement that are going unsatisfied to-day and that, unless investment policy is changed, are likely to go unsatisfied in the future.

Signs of present insufficiency of investment in *old* lines of production may be seen in the working of plants above their normal planned capacity, and in orders not executed at all for want of capacity, however over-taxed. Many co-operative plants seem to be planned conservatively for the minimum load, so that when demand increases in the prosperous phases of the trade cycle, machinery and men must be worked overtime and factories be crowded out with additional, often untrained, workers if orders are to be executed. Too often these "rush" measures, expensive as they are, are insufficient and orders must be entirely abandoned.

Signs of present insufficiency of investment in *new* lines of trade are evident in the delay with which the co-operative movement has taken up new inventions and processes such as artificial silk, and wireless apparatus, or developed new marketing methods such as fixed price bazaars and cash chemists' stores. Co-operative development tends to copy capitalist development, and when an investment has at last been made along the lines pioneered by one or two capitalist firms, the fertile virgin soil has already been cropped. In the drug industry, indeed, the earlier stages of manufacture have been practically monopolized by one capitalist firm, and the co-operative movement must confine its operation to the final processing of materials bought at a monopoly price from capitalist sources.

Whilst in some trades capitalist development has been copied, in others the co-operative movement has as yet not invested at all. These possible trades for future invasion will be considered in Chap-

ter 27. The co-operative movement has undoubtedly been wise in its first choice of industries in which to invest. These "first choice" industries are those for whose products demand is inelastic and stable and in whose production the supply of fixed capital is less important than the supply of raw materials. All these marketing and technical conditions lower the risk of misinvestment of fixed capital and safeguard investors or depositors against wide fluctuations in the value of their property. The first-choice, safer opportunities for co-operative investment are now, however, becoming exhausted, and the co-operative movement would be wise to consider somewhat more risky industries for the investment of its almost too copious funds.

The fear of investment is, of course, shared by many capitalist firms and is thought typical of most forms of state operation of industries. Some economists attribute most of the economic maladjustments of the modern capitalist world to a propensity to save too much and consume too little, thus piling up supplies of capital without creating a demand for its use in conjunction with labour. The co-operative movement promotes extensive saving but appears more unanimous than capitalism in its fear of investment. Some capitalist firms and even some state and municipal undertakings appear enterprising and can, where competition is possible, reduce prices and thus undercut their less efficient rivals. But co-operative principles are opposed to competition and if co-operation is to spread at the expense of the competitive system, if the co-operative movement is to produce more of the materials and equipment it now buys in the market, and is to spread internationally, it is vital to efficiency that some alternative mechanism to competition for profits be discovered for fostering the spirit of enterprise.

§ 3. *The Causes of Low Industrial Investment*

The first step towards such discovery is to disclose the causes for the present insufficiency of investment enterprise in the co-operative movement. These causes are mainly psychological, but vary in the level of consciousness at which they operate.

Thoroughly conscious reasons for not investing are represented by traditional ideals and policies expressed in such slogans as "production for use and not for profit", and "no speculation with depositors' funds". These phrases have been misinterpreted almost to the extent

of meaning that nothing should be produced or distributed about the use or demand for which there was the slightest doubt, and that there must be no anticipation of consumers' wants. The working-class consumer is traditionally afraid of capital as debt and supported by the further slogan "owe no man anything" is unduly impressed by a few investments that may have gone wrong in a slump. With modern industrial technique, such counsels are economically impossible. To be cheap and efficient, production cannot be confined to filling actual orders. Plant must be laid down, "invested in", to produce, possibly mass-produce, for stock, in anticipation of demand over a long series of years in the course of which profits may or may not occur. In this sense, speculation is an economic necessity.

If profits do occur, they need not, however, accrue to the capitalist. Production for and distribution of any profit to the consumer are the aims of co-operative enterprise. This must to-day involve speculation, and there is reason to believe that considerably more speculation in investing the deposits of members in their own industry would not endanger the security of co-operative societies. It is a matter of preserving the right proportion between investment in industrial equipment and stock and investment in liquid funds. The optimum degree of internal industrial investment is some way beyond the proportion actually effected by co-operative administrators.

Less consciously admitted than these ideals and slogans as the basis of policy, are certain satisfactions felt by co-operative administrators with certain situations. It is often considered satisfactory when there is no need to contract the use of machines and men in times of depression, and undoubtedly an exceptionally high surplus appearing in the accounts of any one plant is, however secretly, a cause of rejoicing. Both these satisfactions may be ill-judged. Employment and investment in machines may be stabilized satisfactorily, but stabilized at the trade depression level, and may be quite insufficient for the prosperity phase of the cycle or for any long-period upward trend. Exceptionally high surplus may be achieved by restricting the total output and investment and maintaining prices unnecessarily high in relation to costs. In neither case will the satisfaction of the production administrators be shared by the consumer.

So far, the causes of insufficient industrial investment have been found in certain states of mind, peculiar to co-operative philosophy, in those controlling co-operative trading activities. The remedy lies

mainly in a change of mind. Further causes of too low a level of investment are more indirect. They are still states of mind, but these psychological attitudes are not peculiar to the co-operative movement. They are mental reactions, perfectly normal in themselves to particular co-operative methods of organization. Among these methods, four may be picked out as tending to discourage investment: decentralized democracy, weak financial incentives for the investing administrators, the particular method of appointing such administrators, and (among the smaller retail societies) the intimate relation between depositor members and the investing committee.

Decentralized democracy makes for long deliberation of any proposal for investment and for a slow process of coming to a decision, if any. Directors and other administrative chiefs find no financial interest in extending trading activities—only more bother; and they would be more than human if they were to go out of their way, against much co-operative philosophy and the dictates of security, to advocate additional investment. Moreover, the social antecedents of most co-operative administrators are such that investments on a large scale appear somewhat staggering. They are liable to be thinking in terms of tens of pounds when the need is for the investment of hundreds of thousands. It is significant, perhaps, that apart from purchases of raw materials, investment in capital goods for C.W.S. plants of a higher value than £5 requires the sanction of the Board of Directors.

In addition, those appointed to managerships and directorships in the co-operative movement do not always possess the imagination, aggressiveness and will power necessary to build up a successful investment in the face of capitalist competition. More has been said on the quality of management in Chapter 20; but it is evident that, among the qualifications for appointment to key positions in co-operative enterprise, successful control of a society's retail business and democratic reasonableness in discussion are of outstanding importance. Such qualifications do not necessarily ensure a bold initiative for investing in large-scale production and may sometimes lead to agreeing "reasonably" with capitalist competitors to share the market, thus limiting the possible scope of co-operative investment. Clearly, different methods of appointment and of providing incentives must be compared, with a view to finding the devices most efficient for successful investment, compatible with co-operative democracy.

The old tradition cannot be relied upon automatically to yield the enterprise needed by the wholesale and larger retail societies.

The small retail societies do not require the same large vision, but an obstacle even to the small amount of investment they do require is presented by the family business atmosphere that so often prevails. The same mental reactions result in trying to safeguard members' deposits, as in the small capitalist family business.

"On the important question of reinvestment of revenue in the firm the family business is often restricted because of large holdings of stock that distant cousins, aunts, widows, and even children may possess. . . . It is not felt right to deprive these members of the family—complete passengers though they be—of their expected income. It would be 'letting one's people down', and one's people are not like ordinary shareholding people."[1]

Finally, the national scope of co-operative organization imposes almost inevitable limits on the mental horizon. Though the ideals of the co-operative movement include international brotherhood, the facts of the trading organization are that each nation has its own wholesale organs and that the market in any sort of article within each country is restricted to buying the home society's production if there is any of that sort. This is no doubt the logical outcome of abolishing inter-society competition, but it does limit possible investment outside national frontiers. The solution probably lies in joint investment in certain industries by several national societies along the lines of the English and Scottish Joint C.W.S., the joint enterprises of the Scandinavian Co-operative movement, and the new joint Swedish and Scottish electric lamp enterprise.

§ 4. *The Direction of Investment*

The causes of insufficient investment by the co-operative movement outlined above are all remediable without changing any of the fundamental principles of co-operation, either directly by changing certain present misconceptions in the minds of co-operative administrators, or indirectly by changing certain procedures in co-operative organization. Let it be supposed then that the need for increased investment in their own industry and trade be agreed upon as a general principle

[1] P. Sargant Florence, *Logic of Industrial Organization*, p. 209.

by co-operative leaders. What signposts are there to indicate the directions in which investment should be carried?

If the purpose of production and distribution is taken as the supplying of the consumers' demands, then the first indications of the direction of investment are the different net revenues derived from selling different products. Demand refers to wants for which the consumer is prepared to pay a price. It does not refer to wants without the wherewithal to pay, much less does it refer to the mere needs of the consumer. What a consumer needs in the way of diet, medical treatment or education is often very far from what he wants—and with poverty in our midst his wants are very often far above what he can demand. Occasionally, the co-operative movement appears to aspire to supplying wants or even needs, but co-operative trading mainly exists for the supply of what the consumer himself demands and is prepared to pay for. That being the case, the revenue derived from the prices charged, once prices have covered costs, is the primary guide for what is to be supplied. It is thus the expected net revenue, the revenue minus the total costs, that forms the first test of the direction of efficient investment. This expectation covers the long-period as well as the immediate future, and the longer the use for which the investment is laid down, the further into the future expectations must range. Thus present calculation of net revenue must be supplemented with some forecast of future trends.

Co-operative trading organization has integrated a wide variety of lines of production and distribution, and it would seem possible to calculate and compare the net revenue of a great number of different lines in which investment has already occurred. The present value of the sales or gross revenue of each of these lines is, with certain exceptions, known or easily discoverable; but the costs that must be subtracted to obtain net revenue are difficult to allocate to each several line. Even within one plant there are certain important overhead costs such as heating and lighting or interest on capital, common to the production of a number of different articles, so that it is not easy to allocate them in correct proportions to each sort of article; and within such a multiplant organization as the C.W.S. as a whole, there are further overhead costs common to a number of plants. It is the allocation of these multiplant costs common to plants in a wide variety of industries that forms the main difficulty in the comparison of various lines of investment.

To sum up, the net revenue of each line of investment, used as the first test of its efficiency, is the difference between its gross revenue and costs. The value of the gross revenue can, with some exceptions, be found, and also those costs that are directly allocated to each plant or line of product. But there remain costs not so allocated, and this lack of precision stands in the way of scientific comparisons of investment efficiency.

The exceptions to the possibility of calculating the value of gross revenue may first be dealt with briefly. Value here means exchange value on a market, and certain auxiliary services or products of the earlier stages of co-operative manufacture may never be thus exchanged. Services such as printing, or products such as leather or cloth, are "transferred" from co-operative printing works, tanneries, or weaving sheds to co-operative boot and shoe or clothing plants at an artificial "transfer price" that has not stood the test of market higgling. These co-operative transfer prices are usually determined on the basis of cost or market price, whichever is lowest. The exact market price is not always ascertainable, and several integrated capitalist firms make it a practice to bring quoted market price to the real test by "contracting out" at least a part of any order for materials, services or equipment which they can supply themselves. Their own sources of supply are thus continually brought into competition with true market prices. If such a policy of "partial integration" is not adopted, errors in estimating transfer prices may lead to unfairness as between different plants. If a cost price is adopted as the transfer price that is below true market price, the early stage or auxiliary service plants suffer in revenue, while the later stage plants gain in revenue as a result of cheaper raw materials or service. Thus if revenue minus costs is to test comparative investment efficiency between plants at different stages of production, an error creeps in by the very front door of the revenue factor.

It is, however, the cost factor, and particularly the overhead costs not allocated to plants by such multiplant organizations as the wholesale societies, that is the main problem in comparing investment efficiency. The costs not allocated by the wholesale societies to their several plants come mainly under the heading of depreciation costs and interest costs. Some ordinary depreciation is allowed for in the expenses accounts of each C.W.S. plant at the fixed rates of 2½ per cent. on the original nominal value of land, 5 per cent. on that of

buildings, 7½ per cent. on that of machinery and steamships, 20 per cent. on that of motor vans. The rules of the S.C.W.S. provide for a minimum annual depreciation of 5 per cent. on buildings and 10 per cent. on fixtures. But extraordinary depreciation is also allowed for by both C.W.S. and S.C.W.S. out of central multiplant funds such as the development and renovation reserve and the surplus and deficit account of the Trade Department. Net payments for fixed capital are also written off centrally, except in years of depression, by means of a special appropriation in the appropriation account, so that neither depreciation nor interest need be charged on the portion of the value written off. The total annual extraordinary depreciation provided from these various central funds varies greatly from year to year, but between 1928 and 1934 the middle figure between the highest and lowest annual extraordinary depreciation from central funds was almost one and a half times the middle figure for ordinary depreciation.

These high rates of extraordinary depreciation are not allocated to the separate plants in the same proportions as the ordinary fixed rates of depreciation appearing in the separate expenses account, and the allocation is somewhat arbitrary. For plants under the control of the Drapery Committee of the C.W.S. Board, the ratio of extraordinary central to ordinary plant depreciation is much higher than for plants under the Grocery Committee. Thus investment in drapery plants *appears* to pay better than in grocery plants, since capital costs are written off quicker, but this "appearance" is not necessarily a true indication of the greater efficiency of drapery over grocery investment. This differential subsidization out of central funds also applies to the separate works within the grocery or drapery group, and even to separate plants in the same industry.

The method of determining the interest cost chargeable to the capital of the C.W.S. makes fair allocations as between the separate C.W.S. plants almost as difficult as allocation of depreciation cost. The liability capital of the C.W.S. is not assigned separately even to its three main departments of production, wholesaling and external investment, and the total interest paid on the total consolidated capital is shared by each department and plant on a somewhat arbitrary basis. The assets used as the basis of allocation of interest to each department and plant include nominal original value of land and building, nominal value *at balance sheet date* of equipment, machinery and fixtures, average stocks during accounting period and average debtor accounts,

but excludes cash at bank and in hand, bills receivable and rents due, though interest is lost equally on these excluded as on the included items. As between plants of the production department, no account is taken of the widely varying risks attaching to the different industries engaged upon, which in capitalist industry require widely different rates of yield. In short, the allowance made for interest is no more accurate a measure of the true costs incurred by the different plants in different industries than the allowance made for depreciation. Consequently, the net revenue obtained by subtracting these allowances from gross revenue is no measure of the true efficiency of different lines of investment.

This brief discussion reveals the need for a scientific measurement of the efficiency of different directions of investment, independently of the present traditional practices. To assess the relative efficiency of *existing* directions of co-operative investment, overhead charges hitherto lumped together must be allocated at scientifically determined rates to the different plants. To assess the relative efficiency of directions of investment hitherto *non-existent* in the co-operative movement, there must be a knowledge of investment efficiencies and scientific estimates of present and future demands and market trends. If the co-operative movement means to use the spare funds at its disposal for developing co-operative trade more rapidly than capitalist trade is developing, it must not be satisfied to be merely as scientific as the average capitalist firm. Co-operative organizers must undertake for the service of the consumers more research and spend more thought than the capitalist in the all-important planning of their investment. The questions to be asked and answered before laying down plant for long use in the future in anticipation of consumers' demands are many and difficult; they are questions that can only be tackled by the full-time consideration of experts.

Chapter 26

CO-OPERATION AND OTHER FORMS OF ECONOMIC ENTERPRISE

§ 1. *The Legal Position of Co-operative Societies*

Co-operative societies, like all other corporate commercial enterprises, are governed by legislation intended to prevent the exploitation of workers and consumers, such as the Factory Acts, Early Closing Acts, Foods and Drugs Acts. They differ, however, from most other enterprises in that they are registered under the Industrial and Provident Societies Acts, whereas joint stock companies, whether public or private, are registered under the Companies Acts. Trading departments of the State and municipalities on the other hand are governed by special legislation. These three different forms of legislation provide the framework within which corporate trading bodies operate. The individual who is in business on his own account does not have to register his business, or to conform to the specific legal rules and obligations laid down for collective enterprises. He is, of course, subject to the general legislation relating to working conditions; but if he trades in any other name but his own, he must register the business under the Trades and Business Names Act, 1916. If he enters into partnership with another trader, without forming a company, he has to register the partnership and he becomes subject to legal provisions relating to his liabilities in the joint undertaking. His position in a partnership, however, is very different from that of a company or co-operative society, and he has no limited liability.

It emerges that there are two methods whereby trading enterprises, other than those conducted by the central government or local authorities, may be incorporated, and it is of interest to compare the provisions of the Companies Acts with those of the Industrial and Provident Societies Acts, and the positions which result.

Shares. A company can issue transferable but not withdrawable shares. It must state the maximum amount of capital it intends to issue, but it does not have to state the maximum individual holding. Its shares may be bought and sold, and will vary in value according to the financial position of the company. The rate of interest is fixed only

in the case of preference shares and debentures. A co-operative society can issue transferable and withdrawable shares. The maximum individual holding is fixed, but there is no limit to the total amount of share capital. Shares are not bought and sold, and when they are withdrawn or transferred, the shareholder cannot receive more than their issued value. The rate of interest is fixed, and additional profits are usually distributed as dividend on purchases.

Accounts. A co-operative society in general practice issues to the members a full statement of its financial position, and its accounts must be audited by a public auditor. It has to fill in an annual return to the Registrar, and any shareholder may obtain a copy of this return on application. A company is compelled to issue a balance sheet, but the summarized items in this may convey little information to the shareholders; any person may be appointed to audit the accounts.

Voting. In a co-operative society, voting is usually arranged on the basis of one man one vote, irrespective of the amount of shares held. Voting in a company is usually based on share holdings.

Taxation. A company is liable to taxation under all schedules. The principle of taxation at the source is usually applied, and shareholders not liable to tax have to claim the amount of tax deducted under Schedules C and D. Co-operative societies are not liable to taxation under all schedules; there is no taxation at the source, and members whose incomes are above the taxable limit have to state, for income tax purposes, the interest received from share and loan capital.

The statement is sometimes made that co-operative societies occupy a privileged position under the law. But apart from the question of liability to income tax, which is discussed below, there are no grounds for this assertion. The Companies Acts give facilities for incorporating enterprises run in the expectation of profit, while the Industrial and Provident Societies Acts give facilities for enterprises for mutual trading.

The Industrial and Provident Societies Acts, and the Income Tax Acts until 1933, entitled co-operative societies to claim exemption from paying tax on income arising from interest, dividends and business profits, that is, from Schedules C and D. The reasons for this exemption were clearly stated by the Royal Commission on Income Tax (1920), which reported unanimously that dividends on purchases are not distributed profits but rebates on the purchase price, and should not, therefore, be liable to tax. Co-operative societies, how-

ever, had to pay income tax under Schedules A and B, that is, on income from land and buildings. The Royal Commission of 1920 pointed out that such payments are illogical, because they go into the pooled income of the societies from which dividends on purchases are distributed. "There is a curious anomaly in this position . . . if a co-operative society invests its surplus funds in War Loan, for example, the resultant income is exempted from tax, but if it invests those funds in acquiring property the society is liable to pay tax either on the basis of rents received, or on the annual value of the premises if they are occupied by the society." It went on to say that: " . . . there appears to be no sound reason for differentiating between reserves invested in property, and we recommend that the income derived from invested reserves should, irrespective of the particular mode of investment, be subject to tax." The Commission also recommended that any part of the net proceeds of a society which is not returned to the members should be charged to income tax. Thus the Commission wished to distinguish between distributed and undistributed profits.

The Commission, however, was by no means unanimous. Seven members, including a former Chairman and the then Chairman of the Board of Inland Revenue, presented a minority report in which they stated: "In our opinion, the proceeds of mutual trade are not profits in any sense of the groups of individuals among whom the trade is carried on. They are no more profits than the payments to a club by its members are profits. . . . The majority report . . . implies that the question whether or not the receipts of a co-operative society constitute a profit depends not on the origin of those receipts but on the use to which they are put. This test is not employed as regards any other class of receipts, and we cannot agree that it can properly be applied with regard to this particular class of receipts." Two other members of the Commission tackled the argument from another angle. In their reservation they concurred with the view that receipts arising from mutual trading are not taxable profits, whether distributed or put to reserve, and that therefore to impose taxation on co-operative reserves would involve the introduction of discriminating legislation. They went on to suggest, however, that as more and more trade is conducted by co-operative societies there will be a corresponding reduction in taxable income arising from trade, and that to meet this situation co-operative societies should make proposals for an equitable impost on their transactions. Finally, a

further reservation was made by two other members of the Commission, who argued that the "mutuality" characteristic, while a strong feature of early co-operative societies in which the members knew each other and united for a common purpose, is to-day "so slight and remote, and of so little significance as a practical factor, that it can be disregarded for taxation purposes." Consequently they proposed that the surplus arising from the mutual trading of co-operative societies should be chargeable to income tax. They recognized that a distinction would have to be made, for practical purposes, between the surplus distributed to the members and the undistributed reserves. For most members of co-operative societies have incomes below the tax level; therefore, to impose tax on their dividends would involve the creation of cumbersome and costly machinery to deal with claims for repayment of tax. So on the practical grounds of efficiency in tax gathering, they were prepared to waive the imposition on distributed surpluses, but agreed that tax should be levied on the reserves of co-operative societies.

The Royal Commission made a thorough investigation of the tax liability of co-operative societies. The majority report and the three important reservations summarized above provided all the facts and arguments on which judgment could be based. The action of the Chancellor of the Exchequer in appointing, in 1932, a further committee "to enquire into the present position of co-operative societies in relation to income tax . . . " was therefore rather surprising. This governmental Committee, consisting of three persons, reported in favour of taxing all profits after making all allowances for trade expenses, wear and tear of plant and necessary repairs and renewals; dividends on purchases to be treated as a trade expense. In other words, the Committee recommended taxing reserves. Although this report added nothing to the arguments of the Royal Commission, the Chancellor accepted its findings and levied a tax on co-operative reserves in the 1933 Finance Bill. It is to be regretted that, in appointing his Committee, the Chancellor should have selected as members the chairman of a gramophone company which refused to supply co-operative societies with its products, and an ex-president of the Institute of Chartered Accountants, since the Institute gave evidence before the Royal Commission pressing for the taxation of co-operative reserves. Thus the Committee could hardly be regarded as impartial.

The reports of the Royal Commission and the governmental Committee both omitted one important consideration. In comparing the incidence of taxation on joint stock companies with that on co-operative societies, not enough attention has been given to the fact that co-operative reserves do not influence the value of the shares of the societies. The sums put to reserve by a company influence its financial position and its profit earning capacity. Such reserves tend to increase the price of shares, and therefore the capital, or, if the shares are sold at the higher level, the income of the shareholder. There is therefore no true analogy between the reserves of a co-operative society and the reserves of a joint stock company, even when the question of mutuality is left out of consideration.

It need hardly be said that co-operative spokesmen agree with the view expressed in the minority report of the Royal Commission. Indeed, prior to 1933, the courts had upheld the view that co-operative societies were mutual trading concerns incapable of making taxable profits out of their members. Thus this controversy revolves around the question of mutuality trading. There is general agreement that the surplus which arises in the course of such trading should not be classed with profits or taxed in the same way. To make a distinction between the distributed and the undistributed surplus, and to tax the latter as profits are taxed, is therefore without justification. The Majority Report of the Royal Commission recognized that an illogical position existed, because co-operative societies were taxed under Schedule A and B; but the majority proposed not to discontinue but to extend the scope of this taxation. The governmental Committee took a similar view and the Government acted on their advice. Co-operators see in this action a deliberate attack on co-operative societies. But to recognize that, because co-operative trading is mutuality trading, it should not be treated like profit-making enterprises, does not end the matter. Hitherto the arguments against taxing it have been found overwhelming. But, as we have seen, the view was advanced in one of the reservations to the report of the Royal Commission that mutuality was not as strong a feature of co-operative trading as formerly. From the social point of view there is some significance in this suggestion, but even though the larger urban retail societies and the wholesale societies are now so large as to be impersonal, their operations are still conducted on mutuality principles. A situation requiring a reconsideration of the legal position of co-operative

societies in regard to taxation would only arise if the system of mutuality trading largely replaced the system of trading for profit.

There is something to be said for an immediate reconsideration of the legal position of co-operative societies apart from the question of taxation. A bill to amend the Industrial and Provident Societies Acts has already been discussed in the House of Commons. It was introduced in 1929, but government business crowded it out. The bill proposed, *inter alia*, to restrict the use of the word "co-operative" to societies which are governed democratically, which do not pay interest on capital exceeding 6 per cent., and which distribute the balance of profits to their members in proportion to their purchases. This proposal would prevent bogus co-operative societies from operating under the cloak of the Industrial and Provident Societies Acts. There are a number of profit-making concerns, chiefly concerned with investment business, which are far removed from co-operative aims and methods, but which are registered as co-operative societies. Other proposals included the raising of the maximum individual shareholding from £200 to £400; the tightening of rules in regard to auditing and presentation of accounts; further checks on bogus societies; and provisions for facilitating the amalgamation of societies. No reference was made to the question of taxation. If the bill had been passed, it would have benefited legitimate co-operative societies. Its most important provision, the restriction of the use of the word "co-operative", is still an urgent necessity. But a new bill is needed, a bill which will provide a legal framework for modern co-operative organization. It should be remembered that the modern movement is essentially a consumers' organization, yet the Industrial and Provident Societies Acts were originally enacted to register, protect, and promote producers' societies.

§ 2. *Co-operative, Municipal and State Trading*

The attitude of the co-operative movement to the idea of state trading is not easy to define. The logical aim of the movement is an economic system completely co-operative in character—a system in which every kind of enterprise is conducted by co-operative societies; in other words, a Consumers' Co-operative Commonwealth. But the movement as a whole strongly supports the idea of state trading over a certain range of services. The difficulty arises in trying to define the range which, according to the views of the movement, should

be provided by the State and the range of services which should be provided by co-operative societies. Within the movement there are a variety of opinions on the subject. Some would strictly limit state, including national and municipal, trading to the Post Office, and the provision of local and national water, gas, electricity and transport services. Others would widen the scope of public control to include also certain main industries—coal, iron and steel, heavy engineering—largely for the reason that capitalist control of these industries can be more easily broken by nationalization than by any other method. It is not easy, however, to explain the official views of the movement; the resolutions of the Co-operative Congress on this question are often remarkably vague, and the official policy of the Co-operative Party is dictated rather by political expediency than by any principles of co-operative enterprise.

In the early years of this century, the co-operative attitude to state and municipal trading was more clearly stated. The evidence given in 1900 to the Government Committee on Municipal Trading by Sir William Maxwell, Chairman of the Scottish C.W.S., illustrates the earlier view. He expressed the opinion that any conflict between co-operative societies and municipalities was very unlikely, and although there were many trades which could be better carried on for some time by co-operative societies, co-operators as a whole welcomed municipal trading and were prepared to make way for the municipalities if they proved the more successful. That view is certainly not held by co-operative leaders to-day. In 1900 the notion of municipal services for coal, milk, bread and meat was only a theoretical proposition; the people had had no experience of public control over their domestic supplies. The Great War, the growth of the Labour Party in national and local affairs, and the expansion of co-operative enterprise, gave the problem an entirely different setting. The belief that public enterprise would inevitably provide an efficient and altogether satisfactory service was badly shaken by war-time experiences of food control; and the hitherto unforeseen danger that public services, whether organized by the State or the municipality, could be brought to an end by the votes of the electorate voting perhaps on irrelevant issues, made co-operators question the advisability of supporting a policy which would transfer their own enterprises to public bodies. Yet, while these experiences, and a new realization of what the co-operative position under public control might be,

made co-operative leaders question their old ideas, the growing influence of the Labour Party in Parliament and on local authorities made nationalization and municipalization immediately practical politics.

In the post-war years down to 1930, the co-operative movement tried to work out a policy on the question of public enterprise. In 1919, co-operative support was given to a proposal which the Labour Party made to the Government to set up a municipal milk scheme nationally organized. A substantial minority in the movement opposed the proposal. In the following year, the movement was again divided on a Labour Party proposal, this time to keep the war-time Ministry of Food as a permanent government department to control the nation's food supplies. In 1924, the Labour Government introduced an Enabling Bill conferring general powers on municipalities to enter trade. This Bill received general approval from co-operators, but a special committee set up by the Co-operative Union to enquire into municipal trading in milk, bread, meat and coal reported in 1928 "that in relation to the distributive trades, the policy of development by co-operative societies offered the most practical and satisfactory way of extending collectivist principles in meeting the needs of the community", and urged energetic co-operative expansion and an understanding with the Labour Party to support this view. Thus the old idea that municipalities might take over co-operative enterprise was abandoned, and the co-operative movement tried to make the Labour Party change its views on municipalization.

The controversy on municipal versus co-operative trading holds very little interest to-day. There are three important reasons for this lack of interest. First, it has been realized that the size, scope and locations of local authorities are not generally suitable for commercial enterprise. Second, the co-operative movement has expanded so much that its attitude has changed. Instead of supporting municipalization it now seeks to protect its own vested interests. Third, there has been in recent years a considerable extension of national control over trade, particularly in the commodities previously singled out for municipalization—coal, bread, milk and meat. For each of these commodities there now exists some kind of national marketing scheme dealing with either the final products or the early stages of preparation. Consequently, the opinion of those who formerly advocated municipal trading is now veering towards national rather than local public

control. It is the place of the co-operative movement in government-sponsored marketing schemes which is now actively discussed.

The national aspect of the problem came into prominence in 1931 with the publication of the report of a Co-operative Union committee which had been enquiring into Import Boards. This report dealt only with wheat. It supported the idea of a Board, representative of the State, the co-operative movement and commercial interests, with monopoly powers, to control imports in the interests of the community. But it proposed two important provisos: (*a*) that the co-operative movement be allowed to function as a single national economic unit with freedom to develop its productive, wholesale and retail trade, and maintain its relationships with co-operative organizations of other countries, and (*b*) that any profits not required for the maintenance of efficient administration should be returned to the purchasers.

This report was made public immediately before Great Britain set forth on a new economic policy of protection, restriction, quota schemes and new forms of control over trade. What has happened since then has made all the previous discussions and resolutions useless, at least for the time being. The co-operative movement has now to deal with trading schemes introduced by the Government and actually working. Prior to 1931, discussions centred on the place which should be given to the co-operative movement in the Labour Party's schemes of socialism, for the view was held with some reason that only the Labour Party was likely to alter the existing economic system. Since 1931, the system has been altered in many ways which were not anticipated. The problems arising from state action which now confront the co-operative movement are more real, more serious and far more pressing than any that were contemplated before 1931.

The general attitude of the movement seems to be that industrial activities can by their nature be divided into four groups, for which different forms of organization may be required. The first group covers the main public services—transport and communications, power supplies (including coal mines and oil imports) and water. These industries, according to co-operators, should be organized by the State and municipalities, because each of them tends to the kind of monopoly which should be subject to public control. The second group covers the large staple industries such as iron and steel, heavy engineering, ship-building and chemicals, most of them concerned

with the production of capital goods. These also should, it is thought, be controlled by the State because they are of primary importance to other industries and they are not suited to direct consumer control. The third group includes the major industries in which fashion and public taste and demand play an important part—textiles, electric apparatus, small metal ware and light engineering. The co-operative attitude to this group is rather confused; it fluctuates from nationalization of the whole of each industry to complete *laisser-faire*. The middle view is probably in favour of state regulation which would give a special position to co-operative enterprise and permit co-operative units engaged in these industries to supply the co-operative market in their own way. This attitude was expressed in the report of the Co-operative Committee on Import Boards quoted above. The fourth group covers all those industries making consumers' goods in which co-operative productive enterprises have been established—pottery, clothing, foodstuffs and drink, furniture, printing, and similar trades. The attitude of the movement to this group is naturally coloured by its vested interests, and the movement is not likely to sponsor proposals for state ownership.

The co-operative attitude to Finance and Insurance is also difficult to define. If the movement had not had its own bank and Insurance Society it would very likely have given strong support to the proposal to nationalize the Bank of England, the joint stock banks and all insurance companies. The Co-operative Party in 1932 framed a policy on finance which included (*a*) the nationalization of the Bank of England and the joint stock banks; (*b*) raising the status of the C.W.S. Bank by admitting it to membership of the clearing house; and (*c*) development of a system of municipal banks.

These proposals caused a great deal of apprehension among the C.W.S. directors and other leaders. It seemed to them impossible to nationalize the joint stock banks without also nationalizing the C.W.S. Bank; and in any case it seemed doubtful whether there would be much to gain in making the C.W.S. Bank a member of the Bankers' Clearing House; in fact, the existing status of the C.W.S. Bank seemed far more satisfactory, since the successful enterprise of the C.W.S. Bank had been due largely to its relations with the joint stock banks.[1] The idea of a loose national network of municipal banks also did not commend itself to the business men in the move-

[1] See Chapter 7, § 5.

ment. As a result of these criticisms the financial policy of the Co-operative Party was somewhat modified and now reads:

> "(*a*) The House of Commons to observe and enforce its powers and to exercise a strict supervision over the country's finances so that the same may be framed in the national interest.
> (*b*) That the Bank of England be made, so far as its ownership and control is concerned, a national institution.
> (*c*) The establishment of Municipal Banks or a Municipal Corporations Bank.
> (*d*) The Co-operative Movement in all future developments and reorganizations of banking facilities should be able to exercise whatever banking powers and facilities for financial operations it may require to enable it adequately to serve its wide and expanding consumer interests and responsibilities."

The most important aspect of this policy is the claim for co-operative enterprise to have freedom to expand; this sums up the attitude of the co-operative movement towards all proposals for state control.

The views of the movement on the state control of trade, as far as they can be defined, are far removed from a logical conception of a Consumers' Co-operative Commonwealth. There is a tacit assumption that co-operative enterprise, although socially desirable and economically sound in many fields, is not the form of organization to be advocated, even by co-operators, for all services. This restricted advocacy of co-operative expansion is understandable, but it represents a definite ideological weakness in the movement. The active members of co-operative societies are, in the main, socialists politically. They support the idea of public enterprise as against private enterprise. Socialist co-operators take the view that the socialist state should include both co-operative and public enterprises. They are not quite clear, however, whether co-operative societies should be given a monopoly control over certain services, or whether co-operative and public enterprise should be set in competition with each other. There are some who believe that co-operative equally with public enterprise should be taken over by the State. To think this problem out logically is in their view hardly necessary at the present stage; it concerns a state of social organization which does not belong to the immediate future. They conceive their immediate task to be to develop co-operative enterprise in the fields in which it has already established itself, and to promote the public ownership of the staple industries. The

conflict between these forms of enterprise may come at a later stage, and will be satisfactorily settled, they hope, by those who will then be concerned with the problem.

§ 3. *Co-operation and Marketing Schemes*

The most serious form of state regulation of trade which the co-operative movement has to face is that provided in the agricultural marketing schemes set up under the Agricultural Marketing Acts of 1931 and 1933. This form of organized marketing is applicable to industries other than agriculture, and, although it has so far been applied only to agricultural products, similar schemes have been advocated for the reorganization of other industries.

The Agricultural Marketing Act of 1931 was a new departure in British policy. It contains many provisions which the co-operative movement actively supports. The movement has always encouraged the organized marketing of farm produce.[1] It would have preferred the farmers to regulate their marketing services through voluntary agricultural co-operatives. But the history of agricultural co-operation in Britain has not been marked by many successful enterprises, and many co-operative leaders long before 1931 had taken the view that agricultural co-operation would have to be compulsory in order to work effectively. In so far as the Agricultural Marketing Act of 1931 gave authority to the farmers to set up producers' organizations to organize the marketing of their produce, it was in line with co-operative ideas. The Act, however, went further than organizing supplies from the farm to the wholesale market, since it gave authority to the producers to fix prices and the terms and conditions of sales of their produce, and to prescribe the agents to whom the produce might be sold. These are far-reaching powers and depart from the accepted co-operative idea of organized buying and selling in the market. Further powers were given to the producers by the Agricultural Marketing Act of 1933. This authorizes the Board of Trade to regulate the imports of commodities for which marketing schemes exist. The 1933 Act also empowers the Minister of Agriculture to regulate the descriptions and quantities of home produce if the Ministry, on the representation of the producers, considers it necessary. Another provision concerns the processing of agricultural produce. Where

[1] Chapter 11.

a marketing scheme exists for a primary product, such as bacon pigs or milk, schemes may also be established for secondary products such as bacon, cheese or butter. And where primary and secondary schemes exist, the controlling Boards may, with the approval of the Minister, establish a joint scheme controlled by a Development Board for the regulation both of the quantities of the primary produce which may be processed, and the output of individual processing plants; the latter may then work only when licensed by the Development Board. The Market Supply Committee was also set up by the 1933 Act. Its duties are to calculate the supplies of agricultural produce available in the United Kingdom and advise the Board of Trade, on the basis of these calculations, on the extent to which foreign imports are needed to ensure that supplies are adequate to satisfy the needs of the consumers, without reducing below an economic level the prices paid to the farmers for home produce.

The two Acts provide the framework of agricultural marketing regulation. Organization is provided by the producers, and the introduction of a marketing scheme depends on their votes. A scheme has to be initiated by their representatives, usually the National Farmers' Union, but the terms may have been prepared by a Commission appointed by the Minister of Agriculture. The producers elect a Board which, with the approval of the Minister, may exercise all the powers of control and regulation provided in the two Acts. This form of producer control is the feature of agricultural marketing to which the co-operative movement is strongly opposed. If the control were limited to the organization of supplies between the farm and the market, leaving the merchants, manufacturers, distributors and consumers to negotiate supplies with the farmers and to organize retail distribution, and if the control were exercised in such a way as to improve the efficiency of production, there would be no opposition from the co-operative movement. Control is not limited in this way, and the co-operative movement, the only organized body of consumers in the country, has many grievances against the actual working of marketing schemes. The method of price control adopted by the producers' Boards has been to fix prices so that the relatively inefficient producers obtain a profitable return from the sales of their produce. There is a strong argument for keeping the smaller and even the less efficient farms in existence; but a policy of control designed to achieve that result should be accompanied by strong inducements to improve

efficiency. The co-operative movement claims that the absence of such inducements puts a premium on inefficiency and provides the better producers with exorbitant profits. The Bacon Scheme and the quantitative control of imports greatly increased the price of bacon to the consumer. The Milk Marketing Scheme has stabilized the price of milk to the consumer at a relatively high level. As a result of guaranteed prices for domestic supplies of milk, there has been excessive production for which an uneconomic price is obtained, as the surplus milk can only be used for manufacturing milk products. It would appear that the consumers of milk are subsidizing the manufacturers.

Apart from the complaints of the co-operative movement regarding the effects of marketing schemes on the consumers, it is seriously perturbed by the effects of the scheme on its trading interests. The primary schemes are governed by farmers, and the co-operative movement has too small a direct interest in agricultural production to enable it to obtain representation on the producers' Boards. It is, therefore, opposed to these boards having powers to determine the methods of distribution and the prices of their products. Such powers appear to be a serious interference with the "rights" of co-operative societies. These rights, as claimed by resolutions of the Co-operative Congress and declarations of the national organs of the movement, are freedom to supply their own members, adequate representation of co-operative interests in the administration of organized marketing, and the right to have a part in the determination of prices by negotiation between the producers, distributors and users of the products. From its own point of view, the movement is justified in demanding recognition and acceptance of its rights. The whole future of co-operative enterprise depends on the possibilities of expansion; and these schemes limit that expansion. From the public point of view, too, there is much to be said for the co-operative attitude. A strong and effective consumers' trading organization is greatly needed in a commercial world that is rapidly coming to be controlled by statutory bodies of producers. But to fulfil its purpose as a consumers' movement, Co-operation must be more than a trading venture at variance with producers' interests. It must be sufficiently strong and efficient to offer a better alternative system of marketing.

CHAPTER 27

THE LINES OF TRADE EXPANSION

§ 1. *The Advantages of Co-operative Trading*

THE opposition to state regulation and restriction of co-operative trade, described in the last chapter, does not spring from mere perversity. The leaders of the movement fully realize the advantages of free competition. Their movement came into existence and has grown to its present size and importance in a system of competitive capitalism; and competitive conditions are likely to continue favouring co-operative enterprise. For co-operative societies have many inherent advantages over their competitors.[1] Ability to raise capital cheaply and in abundance, and relatively lower costs in some branches of their business, are distinct economic advantages. In addition there are two further advantages of some economic importance: the loyalty of the members to their own shops and, a unique characteristic of co-operative societies, the fact that these societies have members and not transient customers.

Loyalty is, however, a factor in co-operative trading the importance of which is easily exaggerated. The early societies, while they were struggling to establish themselves, had to depend on the loyalty of their members for their existence. With the huge growth in membership in the present century, that part of the membership with a high degree of conscious loyalty to their co-operative stores, while it has increased numerically, has become a continuously declining proportion, until to-day it is probably but a small fraction of the whole. The test of loyalty is the degree to which the members are prepared, because of their belief in the social value of co-operative enterprise, to buy as large a proportion of their requirements as they can from co-operative stores, even at the sacrifice of some immediate advantage. The inquiry into shopping habits described in an earlier chapter gives some indication of the degree of loyalty of the members.[2] Very few of those who replied to the questionnaire were willing to buy goods from co-operative shops solely because they believed in the ideals of the movement. Loyalty to ideals is important, however, in per-

[1] See Chapters 22, 23, and 24.

[2] Chapter 22, p. 382.

suading the members to purchase co-operatively where the prices and services in co-operative shops and in the shops of their competitors are much the same, a condition of things generally applicable to the majority of societies; and there is a core of ardent members in every society who, possessing this loyalty to a high degree, buy as far as possible all their requirements from their own shops.

More important is the "membership" influence in co-operative trading. Members and customers are the same people, and they have a financial as well as a purchasing interest in their societies. The average capital holding of the members is less than £10, but as the majority of the members regularly withdraw their dividends on purchases to meet current expenses, the strength of their financial interests cannot be measured by capital holdings alone. The payment of dividends on purchases is probably the most important factor in maintaining the trade of co-operative customers. Moreover, through having members as customers, co-operative societies are able to make direct appeals to them. A trading concern which knows the names and addresses and the purchases of its customers is in an advantageous position, for it can undertake effective, direct advertising, eliminating much of the haphazard, hit-or-miss element which is characteristic of the more usual publicity efforts.

It would appear that, with these advantages over its competitors, the co-operative movement is in a position to capture a very large share of the country's distributive trade. Yet the data available on retail distribution show that, of the total national trade, co-operative societies are responsible for only a small part.[1] Fig. 14 on page 108 shows the expansion of co-operative retail trade in the decade 1925 and 1935. In the food group, the co-operative proportion of national retail trade increased from 12·3 per cent. in 1925 to 14 per cent. in 1932. In the same period, the clothing and footwear group increased from 4·1 per cent. of the national trade to 9·3 per cent. Coal sales increased from 7·7 to 14·0 per cent. Yet the whole expansion of

[1] The Government's refusal to undertake a census of distribution is unfortunate. The distributive trades now occupy a very important place in our national economy, and the absence of reliable information about the different kinds of shops, their cost of operation, the number of outlets and other aspects of retailing, makes it impossible for statesmen, business men, and economists to undertake their work satisfactorily. To their credit, co-operative societies do not share the fetish of secrecy held so strongly by private shopkeepers. Every unit of the co-operative movement publishes detailed figures of its financial and commercial operations. They do not suffer in any way from the publicity they give to their affairs.

their sales gives co-operative societies only one twelfth of the country's retail trade. Total co-operative retail sales and total national retail trade are, however, not strictly comparable. The national figures include sales of drink, newspapers, and motor cars and accessories. Co-operative societies do not sell these articles, and it can be argued that they should not be included in this comparative study. If these sales are eliminated, co-operative trade was approximately 11 per cent. of the total retail trade of the country in 1932, and is

FIG. 48*

COMPARISON OF CO-OPERATIVE AND NATIONAL TRADE IN CERTAIN FOODSTUFFS, 1934

Commodity	*Co-operative Trade*	*National Trade*	*Percentage Co-operative*
Liquid Milk	137,759,350 gal's.	696,655,492 galls.	19·77
Manufactured Milk	10,163,137 „	246,295,792 „	4·1
English Cheese	106,375 cwt.	857,000 cwt.	12·41
Imported Cheese	589,613 „	2,868,000 „	20·55
English Butter	Negligible	674,000 „	—
Imported Butter	2,284,200 cwt.	5,379,000 „	42·5
English Meat	2,097,539 „	24,410,000 „	8·96
Imported Meat	768,186 „	34,462,000 „	2·23
Home-produced Bacon	183,780 „	1,800,000 „	10·16
Imported Bacon	1,000,000 „	9,953,167 „	10·05
Home-produced Eggs	226,000,000	4,764,000,000	4·75
Imported Eggs	281,000,000	2,244,000,000	12·5
Potatoes	3,408,980 cwt.	75,340,000 cwt.	4·5
Sugar	7,521,840 „	33,700,000 „	22·3
Home-produced Wheat	2,930,000 „	18,440,000 „	15·9
Imported Wheat	16,591,060 „	104,780,000 „	15·85

* This table has been compiled by G. Walworth, Agricultural Organizer of the Co-operative Union, and is reproduced from *Public Enterprise*, edited by W. A. Robson, p. 341.

in much the same proportion to-day. This is the figure usually quoted, although the absence of the sales of newspapers and motoring accessories from co-operative trade might be considered a criticism of co-operative enterprise. The drink trade raises quite a different question; the movement generally is strongly opposed to the sale of intoxicants through co-operative societies. The motor car trade is considered, probably erroneously, to be beyond the scope of an organization catering mainly for wage-earners and their families.

A further indication of the co-operative proportion of the national trade is given in Fig. 48. This table shows that the co-operative move-

ment handles more than 40 per cent. of the butter imported into Great Britain. This is the proportion which should be gained by other staple commodities, for the movement covers approximately one half of the families of the country in its membership. Other commodities in which co-operative trade reaches a proportion of about 20 per cent. are liquid milk, imported cheese and sugar.

§ 2. *The Weaknesses of Co-operative Trading*

How is it that, with all its advantages and its huge membership, the co-operative movement is doing only about one-ninth of the country's retail trade, even when the more favourable figure is taken? It is clear there must be certain weaknesses in existing co-operative methods which to some extent outweigh the advantages; it is worth analysing these weaknesses and making suggestions for their elimination.

Earlier chapters have shown that the movement aims to eliminate internal competition by recognizing the right of each local society to a monopoly of co-operative trade in the district it serves. In some parts of the country the boundaries of neighbouring societies have not been defined, and here and there internal competition exists; but these are exceptional cases. The movement, as a retailing organization, consists of a network of local autonomous societies, each free to pursue its own policy and its own line of development. Most of these societies are small; more than half of them have less than 2,000 members each. An analysis of the services they operate shows that societies with less than 15,000 to 20,000 members do not undertake a full range of retail services. They lack the necessary potential trade to open up those lines, such as quality furniture, clothing, sports outfitting, electrical equipment, and those services such as fixed-price bazaars and drug stores, which require relatively large stocks and turnover or special skill to make them successful. Many of the smaller societies also lack the necessary capital to finance these lines. Thus the members of societies with less than 15,000 members, however loyal they may be to co-operative ideals, are compelled to buy part of their domestic and personal supplies from other sources. Nearly one half of the total membership belongs to societies which operate only a limited range of services. Moreover, there is no uniformity about the services which are undertaken. Throughout the country prices, dividends and business methods differ considerably.

Faced with this disparity of development, the movement is unable to plan its development on a national scale. But even if the character of the retail societies made ordered national expansion possible, the movement possesses no central organization with the necessary authority and resources to undertake the responsibility of planning and guiding such national expansion. The local autonomy of retail societies is unrestricted. The Co-operative Congress may propound wise and workable policies, but it cannot make them binding on its constituent societies. The movement in its present form is incapable of utilizing the very valuable weapon of national advertising; it has no guarantee that the goods and services advertised would be on sale in all societies; and even in the societies selling the advertised goods there would be no agreement about prices, except in the very few lines to which the C.W.S. has applied its fixed maximum prices policy.

Apart from the restrictions on co-operative trade which are imposed by the small membership and the consequent small-scale operations of so many societies, a further limitation occurs as a result of the movement's general lack of enterprise. Almost 60 per cent. of its financial resources remain unused in its own enterprises.[1] Fear of investment is most obvious at the productive end; but even in retail trade it can be said that the movement has merely skimmed the cream. It has concentrated on supplying the necessities of life, basic and standardized foodstuffs and domestic articles in constant use, requiring less skill in salesmanship than luxury articles with an elastic demand sensitive to price differences. Fig. 14 on page 108 illustrates this situation. Co-operative sales of lines which include some measure of non-necessities are relatively small. These lines are clothing, including luxury fashion goods; furniture and furnishings; confectionery; books and stationery; chemists' supplies, including cosmetics and expensive luxury substitutes for the more prosaic and necessary toilet preparations; and sports goods. The reason for concentration on necessities can easily be appreciated. The movement came into existence to provide its working-class members with the goods they needed, and in its early days members could not afford to buy luxuries. During the last fifty years, however, the standard of life of the people has risen; the movement has expanded greatly and now makes an appeal also to that far from homogeneous section of the community,

[1] See Chapters 6 and 25. Since co-operative capital depends partly on dividends left on deposit, financial resources should grow with growth in enterprise.

the middle-classes. But the range of co-operative services in the country as a whole has not perhaps increased proportionately. A further reason for lack of enterprise, at least in the smaller societies, can be understood, for they are managed in the main by working men who have had little experience of buying anything but necessities. It is their children who are demanding better things. The management committees of most retail societies are innately conservative. They usually possess a fine experience of working democratic institutions, but it is an experience which deters them from taking risks easily. They are deeply conscious of the fact that they are the custodians of the savings of their friends and neighbours, and they are seldom prepared to launch out into new activities which may result in loss. Vigorous development over a wider range of services is seen only in the larger societies where the relations between the members and their management committees are largely impersonal, and where large-scale operations and intensive competition from department and chain stores have provided the necessary spur for initiative and enterprise. Co-operative developments, therefore, are sporadic. Initiative rests with each local society, and their various sizes and conditions have produced a patchwork movement without any uniformity and without any central, co-ordinated guiding force.

§ 3. *Co-operative Planning*

(*a*) *The Limitations of the existing Ten Year Plan*

The national leaders of the co-operative movement are aware of its weaknesses. They are perturbed by the difficulties of overcoming the limitations of local enterprise, and many Congress resolutions have been passed in favour of national planning. By a recent (1935) Congress resolution, a Ten Year Plan was inaugurated, timed to conclude in the centenary year of the founding of the Rochdale Pioneers' store. Unfortunately, the Ten Year Plan does nothing to remove the fundamental weakness of local autonomy. It aims only at stimulating societies to increase their memberships, capital and trade, and for this purpose annual quotas of increases have been calculated for each society. The Plan does not attempt to provide uniformity of services throughout the country. It does not explain to societies how new services should be inaugurated. The restricted

character of co-operative enterprise will continue under the Plan. It does, however, serve a useful purpose in stimulating local expansion of existing services. Experience has shown that expansion begets expansion; and as the membership, trade and capital of a society increases, it will tend to operate new lines and develop over a much wider field. But a plan which leaves the form of this wider expansion to chance—in short, a plan without planning, is not satisfactory.

The basic weakness of the Ten Year Plan is its lack of definiteness. A society can please itself whether it takes any notice of the annual quotas assigned to it, or whether it utilizes any of the publicity material which is available to those participating in the Plan. Above all, there exists no detailed information about the extent or the efficiency of the services of each society. Without such information, the quotas carefully calculated by the Co-operative Union are unrelated to the actual circumstances of co-operative enterprise.

The need for a central trade research department has already been suggested. Before any attempt to formulate a scheme of planned development can be undertaken, a great amount of research is necessary to obtain detailed information about the services operated by every society, the areas where various co-operative services are non-existent, the relative efficiency of societies in every branch of their activities, and other relevant material. On the basis of the information thus obtained, the gaps in co-operative enterprise could be mapped out and plans produced to provide the neglected services; and the causes of apparent inefficiency could be investigated as a preliminary to their elimination. This work would require a large trained staff and would be expensive to maintain; but the cost would be small in relation to the benefits which would accrue. Far more money than such work would require is literally wasted on unplanned advertising, for the publicity activities of the movement are most haphazard and are not based on that kind of market research which is necessary to measure the value of the different forms of advertising. Hit and miss methods may sometimes be necessary; but it is wrong to use them when they can be avoided. One of the advantages of co-operative enterprise, mentioned above, the membership relation between the customers and retail societies, is not used as it could be to make co-operative advertising fully effective.

(b) The Problem of Authority

Based on the information produced by such a research organization, a plan could be produced for co-operative development in every branch of distribution (and, as will be explained later, in manufacturing undertakings also) covering all parts of the country. Even though the local voluntary character of the movement were maintained unchanged, such a plan would be useful in showing societies the lines of expansion it would be profitable for them to follow. Moreover, it would provide strong arguments for the amalgamation of neighbouring societies, for the establishment of regional or national federal societies, and for working agreements between societies where any of these measures were considered necessary to eliminate wastage of capital or fill in the gaps in local services. Whatever body were entrusted with the task of preparing such a plan, it should also be given the task of making it effective.[1]

The national plan might be based on regional schemes, the terms of which would be negotiated with the societies concerned. Modifications might be enforced by societies in the light of local circumstances; and complete opposition to the Plan would be inevitable in some cases. But by bringing these problems to the Co-operative Congress, the Planning or Development Commission would be able to obtain a measure of opinion within the movement which would be of assistance in overcoming opposition. Any scheme of planned development would be more likely to succeed if the body responsible for it had authority to carry it into operation. Here the local autonomy of the units that compose the movement is an obstacle, but not an unsurmountable obstacle. If Congress were prepared to set up its Planning Committee and its research organization, then a further decision by the constituent societies to accept and apply the terms of the Plan would be needed.[2] The tone of Congress in recent years suggests that such a decision would be accepted, provided two conditions were included in it: first, that the terms of the regional schemes

[1] The Ten Year Plan has been prepared by the Joint Trade and Propaganda Committee of the Co-operative Union and the C.W.S. This Committee, described in Chapter 12, is also responsible for the administration of the Plan. For such a Plan as is envisaged here a special Planning Commission would be more desirable.

[2] The Co-operative Congress has already accepted the idea of planning, and the 1936 Congress passed a resolution calling for an economic survey of the movement. Opinion seems, therefore, to be in favour of planned enterprise and the establishment of a permanent research organization.

should be discussed with the societies concerned before being finally promulgated, and secondly, that any aggrieved society should have the right to present its case against any part of the plan to Congress, which would then decide whether or not the plan should be modified. These provisos would also apply to the wholesale societies and other national organizations. There should be little opposition to these proposals from the wholesale societies, for they are handicapped by the disorganized character of co-operative retailing. Measures to achieve uniformity of services, prices, dividends, advertising, and all-round improved efficiency, would result in an expansion of their operations.

(c) *Mapping Out Co-operative Retail Services*

A survey of co-operative services is essential, whether the proposals for reorganization which would arise from the survey are capable of being enforced or have to be left to the voluntary acceptance of societies. The maps of co-operative societies and their branches in Northumberland and Durham, and in the Midlands, on pages 68 and 70, show the extent to which overlapping and competition between societies exist in those areas. Disorganization to a greater or less degree is found in most parts of the country. The obvious solution is the creation of regional societies by amalgamation. The experience of the Co-operative Union in sponsoring amalgamations has not been a happy one. Opposition from the smaller of the affected societies, who rightly regard amalgamation as absorption by their larger neighbours, is inevitable. Indeed, there are two very strong arguments against a general policy of amalgamations. In the first place, a small society operating in a small industrial area is usually a live and active democratic association of consumers. Even though its size prevents it from operating a full range of services, it is usually able to command a high degree of loyalty from its members for the services it has established.[1] If it joins with a larger neighbouring society, it is likely to be completely merged, losing its own identity and, in a short time, becoming merely a branch of the larger concern. The democratic interest of its members and their loyalty to their own undertaking are weakened. Secondly, there is no proof that amalgamation is, in all cases, economically desirable. Many small societies

[1] See Fig. 8, p. 75. It seems paradoxical that the societies with fewer services have a higher average of sales per member. The main reason is the strong position of the smaller societies in their own communities.

are managed and organized with outstanding efficiency, and this efficiency may be lost if they become parts of larger undertakings. It is necessary, therefore, to examine the questions of overlapping, internal competition and duplication of services with great care. Each case must be treated on its merits. No single solution is applicable to all cases; but it will be found that one or other of the following solutions will apply to every district where reorganization is required.

(1) Amalgamation will be found to be the only possible solution in some districts. The Manchester area can be cited as an example. In Manchester and Salford and their immediately adjacent townships, there are nine retail societies. Some of them, serving more or less self-contained industrial towns, have a united and active membership which makes them comparable with societies in more isolated areas. They might lose the interest and loyalty of their members if they participated in a general amalgamation, and it would be wise not to include them in an amalgamation scheme against the wishes of their members. But these arguments cannot be applied to the four societies operating in and from the centre of this urban area. Each of them is too large and too impersonal to inspire in the members a keen and jealous loyalty to their own society. Attendances at their business meetings indicate indifference and not an active interest in their affairs. Large numbers of members may be keen supporters of co-operative enterprise, but their support, as in all the larger societies, is given to the movement, and not merely to a local section of it. Amalgamation of the four societies in the central Manchester area would not cause any serious loss of members' interest or loyalty. Co-operative service would gain, for overlapping and competition exist at present, and there is much unnecessary duplication of services. The situation in Manchester has many counterparts in other areas, for all of which amalgamation of neighbouring societies would be beneficial.

(2) Where amalgamation would probably lead to a serious diminution in co-operative interest and loyalty, and where the existing societies are reasonably efficient within their limited scope, it would be possible to co-ordinate and extend their activities and eliminate wastage of capital by the adoption of working agreements and the creation of federal services. A working agreement would provide for the demarcation of boundaries, uniformity of prices and dividends, co-ordination of certain services such as deliveries and publicity, and general agreement on methods of operation. In this way the

societies in a fairly homogeneous district would collectively develop the district, and for this purpose a small, representative Co-ordinating and Development Committee would be useful. Some of their services however, would be better organized on a federal basis; in particular, milk distribution, bread baking and shoe repairing. A survey of co-operative enterprise would reveal the extent to which small neighbouring societies, each possessing a dairy and a bakery, fall short of sufficient trade to operate these services on an economic scale. There is undoubtedly a considerable waste of capital in these small individual plants. To scrap unnecessary plants and concentrate the trade of all the neighbouring societies on one dairy, one bakery, one shoe-repairing depot, and so on, is economically a rational policy. The creation of special federal societies to run these services would be by no means difficult, since the movement has already had considerable experience of federal enterprise. So far, however, federal services have been restricted mainly to production and processing of goods; only laundries, bakeries and dairies have been dealt with in this manner on any satisfactory scale.[1] There are, in addition, several other distributive services which the smaller societies refrain from operating, but which could be undertaken by a group of small societies working together. Such services include tailoring, outfitting, funeral undertaking, and the sale of furniture and chemists' goods, which could be undertaken either by federal societies or by some special arrangement whereby the neighbouring societies, in order to obtain an efficient organization, might agree to treat one society as the headquarters of the service and the other societies as branches.

(3) The establishment of national federal services would assist small societies considerably. For example, a national federal society to operate chemists' shops, called, shall we say, Co-operative Chemists, Ltd., could negotiate with local retail societies to open chemists' shops in their areas. If its efforts were successful, it would have a nationally organized chain of shops, each associated with a local society, but with the advantages of large-scale enterprise. The same idea could be applied to all the services which small societies commonly do not undertake, and a group of national specialist federal societies, working in close collaboration with the wholesale societies for supplies and finance, could be created. From the customers' side of the business, the shops belonging to these federal societies would appear to be

[1] See Chapter 9.

stores of their local societies. Local rates of dividend would be paid, although the surplus contributed to the dividend pool would be fixed by the standardized prices of the national organization.

(4) The participation of the wholesale societies in retail distribution is being extended.[1] The wholesale societies could be instructed to develop areas where co-operative enterprise is weak.

Here, then, are four lines of organizational development. To adopt all four in a haphazard manner would lead to competition and confusion. Development would need to be controlled by some central authority and the line adopted in any area would be the one considered most suitable after full investigation.

Reference has already been made to the absence in co-operative enterprise of new services for which there is a growing demand. Petrol and general motor supplies are most obviously neglected, yet thousands of co-operative members possess cars or motor bicycles, and co-operative garages would make a strong appeal to them since the majority find the upkeep of their cars expensive. Petrol, oil, grease, tyres and such equipment as sparking plugs are in regular demand.[2] Motorists would consider the payment of dividends on their purchases to be a real boon. There are very few co-operative bookshops and libraries, although a library service on a national basis, organized to provide every type of book (those less popular from a central institution), would be profitable both in providing a service to the members and in regularly attracting members to the stores. The insistence of the co-operative movement on the need for working-class education makes the distribution of educational books a most fitting co-operative activity. The co-operative sale of stationery is not widespread, and co-operative drug stores are being extended but slowly. As in all other developments, initiative is left to local societies, whose management committees, as we have seen, are generally not very enterprising. Co-operative drug stores can render valuable service. It is well known that many popular patent medicines are sold at prices out of all relation to the cost of producing and retailing them. The C.W.S. is engaged in manufacturing and distributing at much lower prices a wide range of medicinal preparations similar to the more popular brands, but it has difficulty in gaining the trade it deserves owing to the limited number of retail outlets. A rapid extension of co-operative drug stores would enable the C.W.S. to

[1] See Chapter 7, § 7.

[2] Even America has co-operative petrol!

produce on a larger scale and would provide opportunities for effective national advertising.

Department stores are being opened by most of the larger societies, and some of them are well planned and efficiently organized, but fixed-price bazaars are almost completely neglected. For some years there has been much discussion within the movement on the need for a national scheme of fixed-price bazaars. Pamphlets have been published, conferences held, and the wholesale societies have organized exhibitions of the goods they produce which are suitable for a bazaar trade; but the outcome of all this activity is an agreement to leave the development of bazaars to local initiative. Yet it is obvious to every section of the movement that bazaar trading means the mass distribution of cheap mass-produced goods, and to be successful must be organized on the lines of a national chain of stores.

The development of new services which have been initiated by some societies is not effectively brought to the notice of other societies with a view to stimulating their general adoption. Travelling shops, "pantry" shops, provision of materials for new housing estates, organized delivery services, are examples. Many societies have travelling shops to serve customers who live some distance from the nearest branches, and these have proved successful and profitable; but the only information about the methods of running them and their costs of operation given to officials is contained in some articles in the *Producer*,[1] and in the advertisements of the builders of these shops, the C.W.S. Motor-body Building Department. What is needed is an investigation of local conditions to see in which areas travelling shops would be useful, followed by plans for the best method of utilizing them in those areas. Pantry shops have been established by the Middlesbrough Society.[2] They are small shops in which foodstuffs in common demand, such as butter, margarine, tinned and preserved foods, etc., are sold ready wrapped in small quantities. Their turnover is rapid, and with low labour costs they clearly meet a need in a thickly populated urban area, for they are able to sell at low prices. The pantry shop is the co-operative reply to the low turnover house-shop, served usually by a single family. In the provision of materials for new housing estates, the movement has done very little. It has missed innumerable opportunities of organizing special supplies of furniture and other household equipment which the tenants invariably

[1] See Chapter 14.

[2] See the *Producer*, January 1935.

buy when going into their new homes. The distribution of attractive advertisements to explain the articles which could be obtained and the special terms of purchase would have been good business if backed by an efficient service. Delivery services vary greatly. Some societies have developed an efficient organization of milk and bread distribution, but no work has been done in the investigation of the comparative costs and utility of the many different kinds of services adopted. Delivery of purchases to customers' homes is frequently frowned upon, and is seldom efficiently organized, yet this service is being demanded increasingly.

The movement's lack of enterprise in these trades and services is one of the results of excessive parochialism. It needs a central development organization to produce schemes of expansion which, if supported by the local societies, would enable the movement to be the leading organization in new lines of business instead of following, and often lagging far behind, more enterprising competitors. Milk bars are a good example of the lack of co-operative enterprise. With its large milk trade, and its production of biscuits, preserves and fruit drinks, the movement possessed the equipment and goodwill to enable it successfully to initiate this new consumers' service. But it has waited until other and more enterprising concerns have battled through the pioneering stage and perhaps captured the market.

Neglect of such services as hostels, cafés, playing fields and other social rather than retail business undertakings gives ground for criticism of a movement which aims at serving the people. The co-operative movement covers the whole country. It has millions of members in the urban areas, and societies well established in country districts and on the coasts, and some which serve the scattered communities living on the moors and the hills of Wales, Scotland and Northern England. There is clearly an opportunity in this widespread movement, to establish hostels or holiday homes in those parts of the country where the urban members spend their holidays.[1] Each hostel could, where possible, be under the immediate control of the local co-operative society, to which this holiday trade would be a boon. A national organization, using local societies as its branches, could arrange the holidays of co-operators, offering them a choice of many centres and greatly increasing the trade and the goodwill of the whole movement. The C.W.S. has taken a step towards the organi-

[1] See also Chapter 28, p. 511.

zation of holiday centres by setting up a travel bureau which works in close association with the Workers' Travel Association. The W.T.A. is itself a registered co-operative society, but the C.W.S., the W.T.A., and the few retail societies with travel bureaux are not utilizing the resources of the movement as they might by setting up the chain of co-operative hostels which could be created to provide cheap, satisfactory holidays for the huge co-operative public. The public demand for playing fields has met with a negligible response from co-operative societies; yet most societies have sufficient resources to enable them to provide such facilities. Cafés and canteens for urban workers should be an important co-operative service. There are now many co-operative cafés, but without exception they are faithfully modelled on the prevailing type of private café. A distinctive co-operative service, offering cheap but well planned and attractive meals, and including rest, writing and recreation rooms, where periodicals could be stocked as in a club, would not be difficult to organize, and would be a blessing to the thousands of workers who, in every large town, have to eat their midday meal away from home. All these services are either neglected or sparsely and inefficiently provided by co-operative societies. A central directing force is required to stimulate their adoption on a wider and more effective basis.

In connection with the expansion of co-operative trade and services, the appearance of co-operative shops is important. The majority have a solid and prosperous appearance, but many different styles of architecture have been adopted, even by individual societies. There is no distinctive style which immediately brings a co-operative shop to one's notice. The C.W.S. architects have tried to introduce a certain uniformity of style, but they are greatly handicapped by the local character of the movement. What is needed is a generally uniform design which could be adapted to fit in with any distinctive setting. It would be foolish, for instance, to suggest that a shop front which is at home in a suburban shopping centre would be equally suitable for an unspoiled Cotswold village. The Swedish movement has adopted the uniform term "Konsum" as the distinctive sign of all co-operative shops, frequently in association with a monogram in which the initials K.F., standing for Konsumtionsförening or Co-operative Society, have imposed on them the initial letter of the town of the society. Thus all the shops of the Stockholm society have the word "Konsum" on them, followed by a monogram made of the

letters S.K.F. The same idea is worth adopting in Great Britain, for the seemingly indiscriminate use of the words Friendly, Equitable, Provident, and Industrial in the titles of British societies is confusing and unnecessary. The one word "Co-operative" in simple, attractive and uniform lettering, followed by the initials of the society, without any adjectives, should appear over every shop, and there need not be any further indication of local association. This is only one aspect of the need for more uniformity in public relations. There are others equally important. There should be a co-ordination of advertising so that any person, living in any part of the country, may know what can be bought from co-operative shops. National advertising depends on a greater measure of uniformity of services, prices and dividends, without which effective publicity is impossible. A planned development of the movement is the only way by which this necessary co-ordination of services can be obtained.

(d) Mapping Out Wholesale and Productive Services

So far, this discussion has been concerned only with retail services. Wholesale merchanting and the organization of manufacturing activities must also be included in any planned expansion of co-operative business. Little need be said about merchanting. The wholesale societies have built up efficient organizations which could easily be extended to serve the new or improved forms of trading suggested above. Manufacturing services need far more consideration.

As has been pointed out, only a small part of the goods sold in co-operative shops are produced within the movement at the present time, and this includes goods imported from foreign co-operative societies. The figures given in Fig. 43 reveal the relative position of co-operative production.[1] The *net* value of the goods produced by the movement, minus the services and goods not entering into retail sales, amounts to 19·3 per cent. of the total sales of the retail societies, a much lower proportion than one would expect.

In very few industries is the output of co-operative plants high. In the flour-milling industry co-operative mills produce about one-quarter of the national production. No other product reaches that proportion. The major part of the co-operative market for some commodities, however, is supplied, in the final stages, by co-operative plants. Soap, preserves, furniture, footwear, cycles, brushes, and

[1] Page 410.

men's clothing are in that category. Any extension of retail sales would also cause a corresponding increase in the output of the plants producing those commodities. On the other hand, co-operative production of a large number of commodities is very small compared with their retail sales, thus indicating that retail societies prefer to sell the lines of competitive manufacturers, or that co-operative production in those lines has not reached satisfactory outputs. The number of such articles is so large that it is impossible to give anything like a complete list. It includes tobacco, piece goods, millinery, as well as the numerous goods demanded by the higher standards of housing, and many foodstuffs. Organized development of co-operative trade would have to include measures to increase the production of these goods and to make them acceptable to the consumers. Some co-operative products are not attractively presented; their brand names are not such as to stimulate purchase; others have not the taste the public wants; and the processes of production are sometimes below the level of efficiency that is needed to make them successful.[1] Above all, the price must be "right". The policy adopted by retail and wholesale societies of never charging much below market prices for co-operative products, even where those prices are considerably above cost and include some monopoly profit, must limit the possibility of expanding considerably the sales of the articles in question at the expense of non-co-operative competitors. It is true that the public is apt to suspect that low-priced articles are cheap in quality as well as in price; but the consumers' own co-operative societies are in a strategic position to educate their consumer members and, while they are being educated, to find out what their precise reactions are to different prices, what, in short, the "right" price is. They should be able to lead, not follow, the market pricing, and should endeavour to produce at a cost related to the right price, which their market research will have discovered. Connected with price are credit facilities. If the middle-class market is to be tapped—and increased sales and membership often depend on this development—then co-operative societies will have to adapt their credit policy to middle-class habits. They must not insist on weekly cash payments on the door-step, but must be prepared to accept monthly or quarterly cheques.

The movement has made no attempt at all to produce many of the

[1] See Chapter 23, p. 404.

articles sold in co-operative shops. Sugar, electric lamps and matches are examples, among many others. The reason for this reluctance to enter into production is usually that the wholesale societies have been able to make easy arrangements with the manufacturers for supplies. In most of these cases, production is monopolized, and new entrants would find it difficult to sell on a scale large enough to employ an efficient plant to the full. The movement would certainly find it more difficult to enter a monopolistic than a competitive industry, but it is in a stronger position to do so than any other concern, for it can make arrangements with its retail societies to establish a guaranteed market. In accepting the terms of monopolists, the movement is departing from its belief in the virtues of free enterprise. It has a social duty to protect the consumer from monopolistic exploitation and it should, therefore, make every effort to establish itself in the industries concerned.

To start production in some of the monopolized industries would certainly be very difficult. The sugar-refining industry, for instance, has produced an agreement which, backed by the Government, makes it virtually impossible for any concern to enter the industry, either by erecting new plant or by buying existing plant.[1] To erect new plant would be economically wasteful from a national point of view, for the existing productive capacity is more than double the country's annual consumption of sugar.[2] Patent laws also prove an obstacle. The production of electric lamps would be possible only under licence from the patent holders—the electric equipment manufacturers.[3] Government schemes, such as the selling schemes in the Coal Mines Act, prevent further expansion of co-operative production. But the existence of these obstacles strengthens the case for a survey of co-operative production and the working out of a scheme of expansion in those fields where expansion is possible before it is too late.

The second reason for the low percentage of co-operative production—the small extent of vertical integration—raises the problem of materials and supplies. In the main, co-operative plants depend on capitalist sources for their raw and even semi-manufactured materials. Co-operative production indeed often consists merely of the final

[1] H.M.S.O., *Statutory Rules and Orders*, 1937, *No.* 221.

[2] Report of the U.K. Sugar Industry Inquiry Committee, 1935, cmd. 4871, p. 46.

[3] The Scottish C.W.S. in association with the Swedish Kooperativa Forbundet has had to face this problem in its new joint electric lamp undertaking.

processing stage. In the case of foodstuffs this is inevitable, for farming by industrial societies has not been sufficiently successful in this country to warrant any extension. Thus, milk required for dairy products, fruits for jams, meat for preserved foods, and other agricultural produce used in co-operative factories, will continue to be obtained from individual farmers organized, if possible, in agricultural societies. In some industries, effective control of raw material supplies has been obtained. Wool for C.W.S. woollen mills, and hides for C.W.S. tanneries, are supplied by C.W.S. fellmongeries, which, in turn, have obtained hides and skins from the abattoirs of retail societies. The woollen mills supply the clothing factories with cloth and the tanneries supply the footwear factories with leather, thus completing the most self-contained chain of operations in co-operative organization. Flour from C.W.S. flour mills is used by the C.W.S. biscuit works. But there are few other examples of such vertical integration.

Vertical integration of production and distribution is not the only possibility of efficient development in the co-operative movement. The chains of stores constituted by retail society branches offer a wide scope for the provision of auxiliary services and producers' goods, such as shop-fittings, boxboard, office supplies, stationery, and assembly of motor delivery vans. One of the most successful of C.W.S. enterprises is its shop-fitting and motor body building service which, with an effective planning of the movement, would require considerable extension.

This kind of integration enables an organization to safeguard itself against restriction of supplies. It is a strategic, but not always an economically wise development. The scale on which some materials or supplies can be used internally may be too small, and even if the scale is large enough to provide an economic service it may, in certain phases of the market, pay to buy materials or auxiliary services from outside organizations if only to test the "transfer" price charged within the movement.

All projects for integration must therefore be reviewed critically, and this review must be among the tasks of expert management and market research. There is clearly a need for a committee of co-operative directors freed from routine duties and able to "direct" the development of trade policy and to seek the necessary expert advice. Such a committee should be an integral part of a co-operative plan.

PART V

THE SOCIAL SIGNIFICANCE OF CO-OPERATIVE ENTERPRISE

Chapter 28

THE SOCIAL ASPECTS OF CO-OPERATION

It emerged from the first chapter that the pioneers of Co-operation had in mind a picture of an ideal, or at least of a better, state of society. While the details of the picture were at no time clearly filled in, the general principles to be followed, in order to advance towards the goal, were firmly grasped and have remained constant. It was of the essence of the co-operative programme that co-operators should work progressively towards the ideal. They relied upon collective self-help and mutual self-improvement. All that they asked from the State was freedom to embody their own organizations in appropriate legal forms; they did not seek to coerce or capture the State in order that its powers might be used for their own purposes. Given this freedom, they hoped that by precept and example they would slowly transmute the existing social and economic order. Unlike some who also desired profound changes, they did not watch for a "revolutionary situation" from which they might snatch advantage; and the notion that, following upon a sudden seizure of power, the oppressed would enter into their inheritance, was foreign to them. They made no appeal to close the ranks and no call to face the enemy. On the contrary they kept the door always open, appealed to brotherhood, and sought to persuade in the hope that in time all would join them. The movement was, in its modern phase, neither salvationist nor millenary. The members looked for increased support, not to the results of conversion, but to the experience of the solid benefits of Co-operation. They did not think that they possessed a key which could open a door into a golden age lying just out of sight; in their belief, they had found a path which would lead them out of a barren and hostile country into a region where, if the co-operative spirit continued to prevail, justice would be secured for all and a reasonable degree of material prosperity made universal.

Nevertheless the co-operators believed as fervently in the desirability and possibility of a new way of life as any of those who hoped to achieve it as the result of a decisive battle. The latter were necessarily much preoccupied with the strategy to be adopted to bring on the battle under favourable circumstances, and with the tactics which would win it. The former, on the other hand, proposed to make a

beginning with the new way of life here and now. Therefore there was no room for debate about choice of methods; the line of action was clear, namely to begin to co-operate. The preceding chapters have mostly been concerned with an examination of the vast and successful trading enterprise which has been brought into existence by co-operative methods. In these chapters some attention has also been paid to non-trading activities, education for instance, and to such matters as relations with employees and the working of democracy in industry. It remains to discuss briefly the more general aspects of those and other non-trading aspects of the movement. In other words, our task in this chapter is to ask how far the movement gives evidence of a new way of life otherwise than in the trading sphere.

It is a commonplace remark that democracy is on trial. Current discussion centres upon political democracy, and it is generally said, even by advocates of democracy, that it does not work, or has not yet been made to work, in the economic sphere. It is strange that, in the course of all this discussion, little or no attention has been paid to the consumers' co-operative movement. Here is a successful economic enterprise, of long standing and in the course of steady expansion, which is completely democratic, not only in form but also in fact. The discussion in Chapters 16 to 19 has shown that there is abundant opportunity for all members, who wish to do so, to make themselves heard, to play a part in consultations and to take a share in executive functions, and that management is sensitive to the opinion of the membership which is so well able to express itself. Further, unlike most, if not all, political democracies, co-operative democracy has never fallen under the sway of financial or sectional interests, demagogues or bosses. It is true that the fluent speaker or the good mixer may at times have an advantage as a candidate at elections, and that the employee interest has occasionally pursued a sectional policy with success. But these are very minor exceptions, and it is a fact that co-operative democracy has never been perverted, as have many political democracies, into a machine which the careerist, masquerading as a statesman, consciously or unconsciously works in the interest of self-seeking groups.

The pioneers thought that democracy had virtue in itself, since it recognized the worth of every man and conferred dignity upon all the members. We believe that they were right. They also thought that democracy would work in industry. Events have shown that it

can do so; for the movement has proved that democracy is fully applicable to that sphere of life in which its introduction has been held to be least practicable. We believe therefore that the trading success of the movement is not merely an economic success but, what is far more important, a successful social achievement. For it has shown that the best way of life can be followed in the pursuit of those activities which must of necessity occupy the greater part of the working life of most men.

This great social achievement has both a negative and a positive aspect. On the negative side, it has eliminated from the economic sphere, as far as it is in the hands of the movement, anti-social or potentially anti-social influences. On the positive side, it has enriched the lives of those who have come forward to take a share in the control of the trading organization, and it has produced a most beneficial change in the position of employees in industry. Let us consider these positive social achievements in turn. The democratic method involves the construction of a network of committees, councils, federations and other bodies, some executive and others advisory. In every sphere of its activities, the consumers' co-operative movement, as we have seen, has produced an almost bewildering profusion of machinery of this kind. It must be remembered that this machinery has not been evolved from the brains of theorists in an attempt to impose organization from above. When this is the case, the organization may remain a mere lifeless skeleton which no ingenuity, however great, can clothe with flesh and blood, and therefore study of it is not only tedious but also of little profit. Co-operative organization, on the other hand, is spontaneous; it is the product of a collective consciousness and of a desire, informed by definite aims, to make efforts in common. It is often cumbrous, unwieldy and slow in action; but, to take a metaphor from the plant kingdom, this is only excessive growth from a vigorous stock, which moreover is able, after a process of pruning, to direct its energy into the more promising shoots. Thus it is profitable to study this intricate system and the manner in which it works; for it gives a picture of the co-operative movement as not only democratic in form but also as imbued with vitality which expresses itself in this mode.

The nature of the work performed by the tens of thousands of co-operators who staff the committees varies greatly. At one end of the scale, there are a large number of relatively trivial duties; at the

other end, there is work which is in the highest degree exacting and responsible. In each of the fields of production, wholesaling, distribution, banking and insurance, the members of the responsible committees sucessfully carry out duties of a kind and on a scale the performance of which, in the most powerful states of the modern world, is commonly rewarded with riches, honours, social prestige and political power, with in fact all that society can confer. But the co-operative leaders are and remain of the people; they neither seek nor receive rewards of this kind.

There are two quite distinct features of this situation, each of which may be rightly claimed as evidence of very noteworthy social achievement. One problem, which faces democracy in action, is how to ensure to those responsible for the conduct of important business, adequate status and authority, without at the same time removing them from the common run of men. Such persons tend to form a class, and classes tend to become hereditary. Since a social class may be defined as a group distinguished from the rest of the community, otherwise than as an inevitable consequence of the differentiation of functions, the existence of social classes is hardly compatible with democracy. The co-operative movement has proved that the most important business in the economic sphere can be adequately performed without giving rise to class differentiation.

The second feature of the situation is equally noteworthy. The right of the people of this country to associate freely for any purpose opens up to them opportunities of experience in many fields, social, religious and political. But these opportunities are commonly deficient in one direction. They seldom give the chance of undertaking responsibility for trading organizations. Few members of the wage-earning class can hope for a greater degree of experience in this direction than falls to the man who runs a small shop or a family farm. The trade union movement is no exception to this rule; for trade unions are not responsible for the conduct of industry. The debt of this country to the trade union movement, as a training ground in the running of democratic machinery, is great. Although in some industries there are now welcome signs of a change, in an important sense trade unions have been and are still in opposition without prospect of office. For those without responsibility, the next best thing is the prospect of office; since the trade unions lack even this, the lessons which they can teach are limited.

The co-operative movement, on the other hand, is in power, and its trading operations are on a scale sufficient to satisfy the most megalomaniac among captains of industry. Here is an opportunity for the ordinary man and woman to share in the responsibility for the conduct of an immense trading concern. It is the one chance open to them to take a part in controlling the production and distribution of that large range of goods and services now required by every household. This is not an opportunity to meddle in affairs beyond the comprehension and scope of interest of the ordinary citizen; in this respect it differs from political democracy, where many of the problems, as in the field of foreign affairs, are unfamiliar and obscure. It is an opportunity for control over matters of immediate personal and domestic concern. Thus it has greatly enriched the lives of those who take these chances, for it has enabled them to express themselves in a sphere that is of deep personal interest to them. It has further enriched the life of the community as a whole, for it has given opportunities in each generation to many of those in the wage-earning group, who are specially gifted with business ability, to exercise their peculiar talents. Since, as we have noted, these opportunities are almost non-existent outside the movement, it must have saved many thousands of men and women in each generation, gifted with managerial and executive ability, from suffering under a sense of frustration.

The success of the trading side of the movement has still wider social implications. It is generally acknowledged that the political stability of the country, and its capacity for continuous and steady growth, depend upon the freedom and ability of the people to come together in order to form appropriate associations, to adapt and to improvise. In this manner the lessons of self-government are learnt. The co-operative movement provides one of the most important among the opportunities of learning these lessons. But it does more than that. Since the movement is mostly concerned with trading, it familiarizes the members with the peculiar difficulties inherent in the production and distribution of goods and services. This is a most valuable additional lesson. In these days, interest in what may be called social economics is widespread. Those who have little or no practical acquaintance with the conduct of business are ill placed to understand the problems which arise in this field. Apart from the co-operative movement, the opportunities for wage-earners of gaining

this experience are, as has been said, very scanty, and an awkward situation might arise if the mass of the voters were ignorant of the difficulties which occur in a sphere with which legislation is increasingly concerned. The fact that a realistic view is taken of these problems in this country is in no small measure due to the experience which so many leaders of the working class have gained in the co-operative movement.

The experience of business which the co-operative movement provides and the lessons which it teaches are even more valuable than appear at first sight. For, in relation to economic activities, man has a dual function; he is both a producer and a consumer. Many difficulties and conflicts arise because most economic organizations are combinations for the pursuit of only one of these activities. Trade unions, for instance, are associations of men as producers, and those responsible for them are apt to forget, not only the interests of consumers in general, but also the fact that the members of trade unions are consumers themselves. The co-operative movement is unique in that it tends to keep the consumer-producer relation steadily in view. Co-operators come together as consumers, but they do not cease to be under the influence of the trade union point of view. They are aware that the problem before them is not merely to make goods accessible to the members at reasonable prices, but also to ensure that goods are produced under decent conditions and at proper wages. Their attention is fixed upon economic life as a whole and upon all the relevant facts in the situation. Thus the view of the economic problem, as seen by the active co-operator, is more balanced and more penetrating than that of those whose experience is in other forms of trading.

It was said above that the positive benefits arising from the democratization of industry in the co-operative movement include, not only those to which reference has just been made, but also the position of the employees. In previous chapters we have described the conditions of work in co-operative establishments. It emerged that wages are relatively high, conditions good, conciliation machinery well developed and trade unionism encouraged; on the other hand, the movement is behind some of the best private firms in regard to the selection of personnel, vocational guidance and the use of psychology in industry. But we noticed no radical difference between the position and outlook of employees in co-operative industry and

those of employees in private firms. We were, however, only examining the formal aspects of the situation. When we extend our view to include less tangible matters, we find clear evidence of better human relations and of greater contentment than usually appear. Whence do these things come?

It is not infrequently said that, if wage earners worked for the community and not for the profit of employers, they would certainly be more contented and possibly more productive. We do not believe that the contentment found in co-operative workshops can be attributed to the fact that the employees are not working for private profit. The desire to serve the cause and to forward the movement is no doubt a powerful motive among many of the managerial staff, who derive so much satisfaction from devoting themselves to these ends that they forgo the chance of higher salaries elsewhere. But we doubt whether the outlook and attitude of the ordinary wage earner in co-operative employment are much affected by the facts that their work does not help to fill an employer's pocket and that they are rendering direct service to their fellow wage earners. The source of their contentment must be sought in other directions.

The spirit of mutual help is alive in the movement. Concern for the welfare of the employees is genuine and without ulterior motives. The members of boards, the managers and the foremen are wage earners or come from wage-earning families. They know that good wages are not all, and perhaps not the chief thing, that the wage earner wants. They realize the misery of living under a régime of fear, fear of unemployment, fear of dismissal; they are well aware that badgering, bullying and speeding up can make life a torment. Only too often, in private industry, reliance is placed upon fear in order to maintain discipline and to get work out of employees. In co-operative industry these methods are disdained, and in consequence human relationships are far more satisfactory than in private industry, and contentment is correspondingly greater. Economically there is some loss due to an easy-going system, compensated for, at least in part, by the goodwill of the employees. Socially there is an immense gain. A visitor to a co-operative factory will find it much like other factories; he will not discover establishments, such as figure in travellers' tales, where the workers toil for the benefit of the proletariat. If the visitor is under the influence of communist propaganda, he will dismiss the achievement of the movement in the matter of

relations with employees as showing no advance on capitalism. But the achievement of the movement in this matter is solid and of great significance; for it is no small thing to have removed the harassing and degrading influence of fear from wage-earning employment.

We must now note that the consumers' co-operative movement provides certain opportunities of social achievement of which full advantage has not yet been taken. Before the machine age, choice was limited for the consumer. But the consumer, at times in any case, came into contact with the producer, and could therefore specify what he wanted. To some extent consumption was constructive. With the coming of machines and of large-scale production, choice was widened because a greater variety of articles was produced, but became limited in another way, namely to the things that had been produced. The consumer lost the power to order what he desired. In recent times, the part played by the consumer has become still more restricted for two reasons. The art of advertising has been developed to such a point that consumers are led to think that they are choosing when they are merely acting under the influence of skilful suggestion. Again, in the modern chain or department store, the assistants have little of the professional knowledge of the goods they handle which the specialist shopkeeper possessed. The latter could assume the role of an expert, and advise the customer and offer to get something that was not in stock. In these modern stores, certain lines are stock, and if they do not suit, the customer must go elsewhere. In fact, as a result of the real conveniences and superficial attractions of these establishments, the customer as a rule chooses from one of these lines. Thus under modern conditions consumption is uncreative, and choice, which is often more limited than is generally realized, is under the influence of suggestions seldom made with the single object of benefiting the prospective purchaser.

The co-operative movement controls its own sources of supply and its own organs of distribution, and the members are therefore in a position to free themselves from the constraints which hamper other consumers. But little advantage has been taken of this fact; co-operators are no more intelligent as consumers than the general public, and they have much the same attitude when purchasing from their stores as when ordering from private shops. They are no better protected against the blandishments of advertisers than the public at large. The leaders of the movement have not succeeded, indeed they

have seldom tried to succeed, in developing a critical spirit among the members in relation to advertised and proprietary goods. It should be possible to bring home to the members the fact that the vast sums spent on advertisement are found by the purchasers, that the motives of advertisers cannot be purely altruistic, and that one can have for a given sum of money so much of a commodity in a simple packing or so much less in an expensive but useless container. In season and out of season it should be impressed upon members that their own organization can produce most, at least, of the goods emanating from private firms, with the additional advantages that quality is always guaranteed and the price generally less.

To arm their members in this way, that is to make them intelligently critical of advertised goods, is only the first step. It is more important that they should have rational grounds for making choices and giving orders. The movement has neglected an obvious duty in not undertaking such work as is performed by the Good Housekeeping Institute with its magazine *Good Housekeeping*. For consumers should not only be less gullible but also better informed about the things which they purchase than they are at present. It is much to expect that they should have any extensive information about the properties of many materials. But in relation to food values and the properties of objects of common consumption, there is already an incipient interest which the movement has done nothing to develop or foster. Yet opportunities abound in displays at shops, in the publications of the movement, in the films issued by the Co-operative Wholesale Society, in the educational activities, and in discussions by the Guilds. It is well within the power of the leaders of the movement to render an immense service to the members by teaching them to spend with greater wisdom and profit than at present.

Wisdom in expenditure has many implications. It must suffice to mention one particular opportunity which has been neglected. In regard to certain articles, low price is more important than width of choice. But low price can often only be obtained by large-scale production. In a former chapter it has been mentioned that co-operative factories often produce a very wide variety of a given article, thus losing the economies of mass production. The members could be taught the lesson that, if they will content themselves with a somewhat narrower choice, where choice matters little, they can have cheapness, where cheapness matters much.

Then there is the need for developing discrimination on aesthetic as well as on rational grounds. It is here that the movement is at its weakest. Its products are deficient in taste, and apparently in the gustatory as well as in the aesthetic sense. The people of this country have so long been starved aesthetically that they do not know a beautiful thing when they see it. That there is a long and difficult task awaiting any movement which would attempt to arouse preference for the beautiful, none would deny. But the capacity for aesthetic enjoyment is there, and there is no reason why the co-operative movement, with its tremendous opportunities, should lag, as it does, behind certain other organizations in their attempt to inculcate higher standards of taste.

Consumption, freed from the influence of mass suggestion and well informed, would be in a sense constructive or creative. A further stage towards making consumption creative could be reached in the co-operative movement, since it controls, as has been said, its sources of supply. To-day all consumers are in general purely passive; their real or supposed wants are discovered for them by enterprising firms whose products are in time copied by the co-operative movement. For in the co-operative movement, not only is demand, as everywhere else, uncreative, but so also is supply. This is one of the most damaging charges that can be brought with justice against the movement; it indicates a depressing lack of imagination. Nevertheless the movement has it in its power, not merely to rise to the level of other productive enterprises on the supply side, but in addition to draw in its members to assist in the task of creation. There should be an appropriate research department of the Co-operative Wholesale Society; members should be encouraged to make suggestions which societies could forward to the department. There should be a flow of suggestions and criticisms backwards and forwards between the societies and the department. In this fashion the movement could do much to render consumption once more creative.

When we look at the movement as a whole, we find its most important characteristic to be that production and consumption, instead of being artificially separated as in other kinds of economic organizations, remain related, even if full advantage has not yet been taken of this fact. When we come to examine the peculiarities of the movement in detail, we discover dividend on purchase to be the mechanism which most sharply distinguishes it from other organiza-

tions. The economic importance of this mechanism has been fully discussed; but while its chief significance is to be found in this sphere, it is not without interest as a social institution. The system of dividend on purchase means that members save automatically for a period of at least three months. At the end of that time they can draw out their savings. It seems that about £20,000,000 are now distributed annually in dividends, and that about six members out of every seven withdraw their dividend at the end of each quarter. For those who, wishing to accumulate relatively considerable amounts, leave their dividends untouched at the end of the quarter, the movement offers a simple, convenient and secure mechanism for aiding thrift. Indeed there is nothing to equal it in this line, and the service rendered to the poorer section of the population by the movement, considered merely as a provident association, should not be under-rated.

As mentioned above, most members regularly withdraw their dividends. Where millions of persons are concerned, generalization is difficult; but it seems to be well established that the money withdrawn is very seldom squandered. It is not withdrawn for any lack of desire to save; it does not come as a windfall giving an opportunity of spending for spending's sake. It is regarded as a periodical and anticipated addition to family incomes, and is used mostly to make purchases which are only necessary at intervals, for example of clothes, boots and furniture, or to make periodical payments such as rates and secondary school fees. It may also be used for holidays or for any unusual expenses such as doctor's fees. Thus it is not merely that the dividend is not wasted. Let us admit, for the sake of argument, what we do not find to be true, that dividend represents no real addition to income and is obtained by paying higher prices. Even then, for those whose income is so low that it is a problem to meet inevitable weekly expenses out of wages, it is a convenience to have part of the income in quarterly payments. Under these circumstances, the whole of the weekly money can go in food and daily necessities, and other expenditure can be held over to the end of the quarter. Once again the movement is found to provide definite social advantages.

It was not the intention of the pioneers that the whole of the available dividend should be absorbed in cash payments to individual members. It was part of their programme that a portion of the dividend should be enjoyed collectively. Though all covered, in the terminology

of the movement, under the heading of education, the objects of collective expenditure have always included entertainment and social functions, together with propaganda, as well as formal education. The educational activities at the present day, using the adjective in this wide sense, were described in Chapter 13, and we discovered a certain lack of drive and clarity of aim. The explanation of this state of affairs is to be sought in history.

The movement took shape and gathered force at a time when the opportunities open to the people at large, either for communal enjoyment or for education, were extremely limited. It was a long time before the newly constituted local authorities acquired powers to provide libraries, reading rooms, halls and other facilities, and a longer time still before they began to make effective use of them. The late growth of public education in this country is a familiar story. Thus, in the early days of the movement, the co-operators had not far to look in order to find profitable ways of spending part of the dividend communally. Many societies set out to provide halls and similar facilities, and to organize classes in a wide variety of subjects from simple arithmetic to natural science. In the absence of state-provided education, the co-operative societies, together with Mechanics' Institutes, Adult Schools and Mutual Improvement Classes, performed very valuable services. As time went on, the public provision of amenities and of educational facilities increased. It became unnecessary for co-operative societies to teach simple arithmetic, and it is now unnecessary for them to teach natural science. The movement has adapted its programme to the changed situation, and in Chapter 13 we have described its policy as one of encouraging its members to use public educational facilities as much as possible while retaining in its hands the teaching of specifically co-operative subjects.

Though the present policy is on right lines, it cannot be said that the movement has discovered how to obtain for the members the full benefits of communal expenditure under modern conditions. The failure may be traced to lack of vision and of inspiration. Expenditure on education (in the wide sense) is traditional; when societies vote money for education, they do so, not because there are things which they greatly want to achieve, but because it is the proper thing to do. Education committees are not obliged, as are most other educational organizations, to treasure every penny and to seek means for making a grant, inadequate for their far-reaching purposes, go as far as possible;

on the contrary, they are often puzzled to know how to spend the money. The money is not ill-spent, but it is spent conventionally and without imagination. Pioneering in this field is not easy as it was once when so little was done; but the movement has ceased to pioneer. It copies; if chess clubs spring up, societies begin to organize their own; if amateur photography becomes the fashion, societies, perhaps usually a little late in the day, organize facilities.

As far as entertainment and social activities go, there is a very strong case for at least as much expenditure as there is now, and probably for very much more. The proportion of communal expenditure to individual expenditure is still far too low in this country. The immense permanent benefits which communal expenditure can confer are shown by such an experiment as the Miners' Welfare Fund. A large fraction of the co-operative membership have something to spare when necessities have been met; nevertheless they often lead unnecessarily dull and restricted lives. Communal expenditure can do two things for them. It can make this surplus go much further than when spent individually, and it can open up lines of new activity and help to create new interests, which they would not discover for themselves. The present expenditure is not wasted; it falls short of what it might achieve in that it provides chiefly for conventional hobbies and popularized amusements, instead of thinking out what are the real unsatisfied needs of the members. Thus it has been slow to cater for the needs of members during the working day by providing restaurants and rest rooms, and it has not exerted itself to discover how to fulfil many unsatisfied wants during leisure hours and holidays. Thus, to take one example only, it has entirely missed the chance of giving a lead in the development of youth hostels and of hiking.

A few experiments have been made. The Royal Arsenal Society acquired in 1919 Shornells, a house with eleven acres of ground, as a holiday home. The Manchester and Salford Society has purchased two houses which are known as "social institutes"; they are open to members of the Society on payment of a small annual subscription. The Leigh Society owns Culcheth Hall which, like Shornells, can be hired by outside bodies for conferences and week-end schools. When so many beautiful houses in lovely surroundings can now be acquired for very small sums, it is surprising that more societies have not availed themselves of the opportunity to purchase them and organize holiday homes. Another type of experiment has been made by the

Cefn Society in North Wales. Cefn is a small mining quarrying town, and the population are nearly all co-operators. There were formerly no public facilities for recreation. The society, about fifteen years ago, bought some waste land, turned it into a small park and put down tennis courts and a bowling green. It is astonishing to discover that this example has apparently not been copied by any other society.

This lack of vision and lack of drive in the development of social facilities is not unconnected with the parallel failure to attain clarity of aim in the realm of formal education. We have suggested above what the strictly educational objects should be. Among them is the transformation of the Co-operative College into an organization for research as well as of teaching. Research is a formidable word in the ears of the public. But, properly understood, it denotes the precise opposite of dry-as-dust activities. True research is only performed where ideas come to birth and are encouraged to try themselves out, where novelties are canvassed and authority questioned. If the College was the research institute of the movement, its atmosphere would be such that students, chosen originally by the societies as their most promising recruits, would return to the societies with fresh notions and new inspirations. By this and other means, the influence of the College would radiate out over the movement; the aim would become more clear, the inspiration would be renewed, and the existing enthusiasm would become better informed. The strictly educational work, retained by the movement in its own hands, would gain greatly in coherence and strength; the social activities, now hesitant, conventional and imitative, would become confident, purposeful and creative.

In the sphere of education we have had to record that, after many decades of much valuable achievement, the movement has reached a phase where the original impetus has worked itself out. A fresh start is required. We have now to note that the most recent new development has not been in one of the fields where, as must always happen in the case of institutions with lengthy histories, there has been some temporary stagnation, but in a totally new direction. The movement has gone into politics. As noticed earlier in this chapter, the pioneers wanted nothing more from the State than freedom to develop along their chosen path. As far as freedom to incorporate their organizations in appropriate forms was concerned, they obtained it with less delay than other movements, such as trade unions, have had to endure. Then for a number of decades the energies of co-opera-

tors were expended in building up their great trading enterprise. There was nothing to draw the movement as a whole into politics. The Women's Co-operative Guild, as explained in an earlier chapter, in addition to facilitating the discussion of co-operative problems, became an organization through which working-class housewives could express their views on problems of the day, especially those relating to women and the home. In this latter capacity the Guild took a definite line on such questions as divorce, and consequently took sides on general political issues. But the Guild could not commit the movement, though, since the word "co-operative" found a place in the title of the Guild, its pronouncements were sometimes a cause of embarrassment to the movement.

During the War measures were taken, especially in regard to the rationing of food, which, in the opinion of co-operators, discriminated against them. Attempts were made to tax the movement in a manner which was held by the courts to be illegal. This was followed by threats to discover an effective way of taxing the movement, and finally by the subjection of co-operative reserves to income tax. Latterly the operation of the marketing schemes has impeded the expansion of co-operative trading. All these moves came from the political right; furthermore, the Press of the right has indulged in a series of campaigns against the movement, and has not shrunk from making the most serious, though baseless, charges against it. The inevitable result has been to drive the movement to look for protection from the left; it would be difficult to find a better example of political lunacy than the deliberate antagonizing by the right of a very powerful movement, inherently evolutionary and a great stabilizing element in the community, especially at a time when the left was in any case toying with revolutionary ideas.

It is easy to understand why the movement came to look to the Labour Party for support. It is not so easy to understand why the Co-operative Party should have been founded. There never was any prospect of the rise of an independent Co-operative Party to a position of any importance. In practice all that happens is that in a number of constituencies, by agreement with the Labour Party, candidatures are financed by the movement. The candidates are scarcely distinguishable from ordinary Labour candidates; if they were, they would not get Labour support and would have less chance of election. The consequence is that the movement is politically less

powerful than if it was officially out of politics, but prepared to advise its members to support those candidates who agreed most with the co-operative programme. For, as things are, the Labour Party is more or less assured of co-operative support, and need not bestir itself over co-operative grievances. Indeed, Labour Party policy is constructed with little or no reference to co-operative ideals or co-operative needs.

The entry of the movement into politics as an appendage of the Labour Party seems thus to be poor tactics from the point of view of its interests as a trading organization. Its object is to draw in the whole community; it runs the danger of limiting its clientele to the members of one political party. But it runs the far more serious danger of losing its way in the realm of social ideals and of being led to abandon its own long-cherished principles of action.

The next and concluding chapter of this volume is devoted to some further discussion of co-operative aims and ideals, and to the prospect of making progress towards them under present conditions.

CHAPTER 29

THE FUTURE OF CO-OPERATION

THE result which would best respond to the hopes of the writers of this book would be that the reader who has read thus far might have shared in some measure their own experience. They began with one end in view—to lay bare the character and meaning of a great and complex movement of more than national significance, a movement which originated in the confused social aspirations of more than a century ago, and has evolved in our own day into an enterprise so vast and so varied in its structure as almost at first to defy description or analysis. The task was begun without preconceptions. It was continued in a spirit of critical investigation. Gradually, as the movement took shape in this study, the tangled impressions of the earlier discussions gave place to a growing sense of order and pattern both in the historical evolution of the movement and in its present organization. The conviction grew that we were witnessing in this process of evolution the working out of a vitally significant principle of social and economic action, so essentially right in relation both to the need of which it was born and to the forces to which it gave meaning and purpose, that neither external opposition nor its own confused advocacy and uncertain application could hinder the result. A false start, under the influence of utopian dreams, was but the occasion for a fresh beginning. The notion that men might combine instead of competing to satisfy their common wants inspired ordinary people to great achievements and led to the discovery of unexpected abilities. The resulting combination of ideal and action expressed itself in a variety of organic forms, some of which proved capable of survival, and others not. Once the most effective form was discovered, it grew and multiplied and adapted itself to changes in its environment and to its own changing needs.

The ideal of universal co-operation could best embody itself in forms which involved no inherent conflict of interest. Thus the plan of co-operation among producers, which was exposed to the conflict of sectional interests, lost ground before the idea of co-operation among consumers for the satisfaction of their wants. The simple device of dividend on purchases offered at once a practical way of

avoiding earlier difficulties and discussions about the destination of accumulated funds, a means of eliminating profit, a method of accumulating savings for the extension of co-operative enterprise, and a sovereign plan for creating the assured market upon which further growth depended. The loyalty and community of interest thus created made possible the whole system of democratic control, directed by inspired and unselfish leadership, which makes the co-operative movement different from any other form of economic enterprise in the modern world.

We have seen how, from the germ of the Rochdale plan, a rich growth of co-operative societies has spread over the land, first in the industrial centres, thence extending into rural and residential areas, adapting its forms to each new environment. This vigorous ramification must of itself have impressed the mind of the observer; but corresponding to this outward growth and giving increasing support and sustenance to the whole, the roots of the movement have struck more deeply and spread more widely. Federal undertakings for combined services, including wholesaling, banking, manufacturing, and social, educational and propaganda activities, have been formed as they were needed, the product of those same vital forces which brought the retail societies into being. It is an arresting thought that the simple plan upon which a modest grocery store was founded nearly a hundred years ago has sufficed for the subsequent organization of the whole of this vast undertaking, and that the principles which guided the pioneers in the conduct of their business are, in essentials, the same as those which govern each unit of co-operative enterprise to-day, from the village co-operative store with a few hundred members to the great multi-plant undertakings of the two wholesale societies.

To have become aware of the dynamic character of this great enterprise, of the size and complexity of its achievement, and at the same time of the creative simplicity of the principles on which it is founded, is the experience which the writers hope to have shared with those who read these pages. But they will have failed in their main task if they have succeeded merely in inducing complacent admiration. For they themselves are left, not merely with a sense of incalculable possibilities, but also with a feeling of doubt as to how far at the present time these possibilities are realized within the movement itself. There is in the history of every great movement such as this a danger of stagnation after a period of vigorous expansion.

The strength of the original impetus may grow less if, in the very profusion of growth, consciousness of purpose is diminished or lost. Size and complexity may become dangers in themselves if there is no corresponding increase in directive energy or in the general appreciation of ends. Growth then becomes haphazard; energies are divided or dissipated in ineffective action; there is no common mind on vital issues; and uncertainty leads finally to inaction and decay. It seems necessary, therefore, at this point, to attempt some restatement of the principles of Co-operation, as they have emerged in the course of this survey, and then to consider how far, in the light of present trends, the movement seems capable of realizing these principles in practice and of maintaining its progress in the future.

§ 1. *The Principles of Co-operative Enterprise*

One of the weaknesses of the co-operative movement in this country is its failure to evolve any clear-cut theory of co-operation to set against or even to supplement other accepted principles of economic and social organization. The modern movement has not produced an authoritative literature of its own. It has thrown up no great thinkers or teachers. It is therefore inarticulate when it tries to explain itself, and either seeks refuge in an obsolete utopian phraseology or finds comfort in columns of statistics. Yet this is not for want of inspiration from the past, or due to any lack of continuity between the past and the present. The fundamental principles with which the movement began remain unchanged to-day; but they needed to be worked out in the light of practice and in relation to changing conditions. Far from there having been any attempt to do this, they have been allowed quietly to slip into the background, or to remain as a kind of religious fervour among the few. This failure to work out a new and purposive idealism, capable of influencing action and policy, has been in no sense deliberate. It has been one of the penalties of growth. As the scale of operations grew larger, the available energies of the movement were absorbed in business activities. These came to be of importance for their own sake, and their ultimate meaning tended to be lost. The task of reviving the earlier sense of purpose and of directing it to the solution of the problems of co-operative development in the future is becoming more and more urgent.

This is not to suggest that the movement must lose itself once

more in a maze of utopian theorizing; but it must become clear as to its purpose. It must lay down the principles which differentiate it from ordinary capitalist enterprise. It must decide what is to be the scope of its operations and influence, both in the economic and in the political sphere; and it must work out the principles of future expansion and the forms which will most favour the achievement of its ends. It is essential, in any attempt to give meaning to Co-operation or to envisage its future place in the life of the community, to define its present character and, in the process of doing this, to lay bare the general principles which may serve as guide-posts when there are further advances to be made or obstacles to be overcome.

In the first place, Co-operation is itself a complete system of economic organization, arising out of a direct interest of associated consumers in the goods and services which they require for the satisfaction of their wants. In this it is opposed to a system of organization which achieves the satisfaction of wants indirectly and only to the extent to which profits are yielded in the process. It is clear that there must be opposition of interest between the co-operative system, which aims at the elimination of profits, and a competing system of supply, the mainspring of which is the profit motive.

Co-operation differs fundamentally from the capitalist system of organization, which puts the interests of producers in the forefront. All are consumers, from the cradle to the grave, though most people, it is true, are producers also. But production misses its true purpose unless it is directed to the fullest possible satisfaction of the wants of consumers, and therefore the consumer interest should predominate. Experience shows plainly enough that, under the capitalist system, producers may, by achieving monopoly of supply, or through selling agreements, raise prices against consumers, or that they may, by the power of advertisement, deliberately persuade consumers that their interests are other than they are. Thus there is a standing temptation to sectional and unjustifiable gain. The co-operative system offers a way of escape from this danger.

If this conclusion is accepted, it is possible to deduce another. Co-operation stands for the control by the general body of consumers of those economic activities which are directed to the satisfaction of their wants, and must be opposed to control by sectional interests. The starting-point of the co-operative system is the consumer and consumers' wants, not the producer and the desire for

gain. As between different bodies of producers organized for gain, there is diversity of interest. Each wishes to sell as dearly as possible, whether they have goods or labour to sell, and to buy the products or services of others as cheaply as possible. It is usual to say that our interests as consumers, on the other hand, are identical. Although this is not altogether true in a society which is divided into rich and poor, it is broadly true of the large body of consumers organized in the present co-operative movement; and it would become increasingly true as Co-operation succeeded in eliminating profit over a widening portion of the field. The significance of the undifferentiated consumer basis of co-operative enterprise has not been fully realized. So long as the consumers are making goods for, and selling them to, themselves, any attempt to save costs by lowering quality, or by reducing the remuneration of the main body of consumers in their capacity as wage-earners, becomes merely nonsensical. Moreover, informed consumers who undertake to satisfy their own wants co-operatively will be interested only in the commodities and services which they need, and will have no interest in artificially stimulating a demand for "goods" which do not contribute to better living. A completely co-operative system of production and distribution of consumers' goods would thus represent an enormous economy of effort, even if there were no saving of costs in the actual production of commodities.

This leads to the statement of a further essential characteristic of Co-operation. Because of the economies inherent in the co-operative system[1] it must theoretically have a continuous capacity for expansion. The economy of effort which arises from the possibility of relating production directly to wants has already been mentioned. But further than that, the larger the body of organized consumers, the greater the benefit which each derives from the system and the greater the capital resources which can be set aside for further expansion. Between different producer interests there must be competition and wasteful friction; this leads to monopoly and the restriction of the gain to fewer people. Co-operation, on the other hand, seeks to bring in the largest possible number of consumers to share in the increasing benefit of the common enterprise. Thus if the movement were clear as to its principles and aims, and were planned and directed on right lines, it would ultimately supersede a system which operates only with

[1] See Chapters 22 and 23.

recurring friction, which involves wasteful methods both of production and of consumption, and which tends to break down in periodic crises.

It is not sufficient, however, to establish the existence of an inherent tendency towards progressive expansion. Expansion itself, in the co-operative system, follows certain laws; and if these are not understood, or if obstacles are placed in the way of their operation, the tendency may be inhibited. The history of Co-operation in this country indicates the way in which expansion tends to take place. The first and most obvious form may be described as "horizontal", and it operates in two main ways. In the first place, more and more consumers are brought into the movement, and its resources and influence thereby automatically increase; and in the second place, the range of commodities with which it is concerned is progressively extended, and the proportionate co-operative buying of existing members increases. These two aspects of expansion are, of course, complementary. The tendency is always to begin with commodities in daily demand by everybody; then, as numbers grow, it is possible to supply those goods which, while they are in general demand, are required at less frequent intervals; and finally, with a further increase in numbers, it is possible to meet the need for commodities and services which are more individual in their appeal and need greater variety and initiative in their production and handling. The extremes of this range are groceries, bread and milk at one end, and artistic products, dentistry, pharmacy, etc., at the other.

Another and perhaps even more significant aspect of co-operative expansion is that which may be described as "vertical". This is concerned, not with the range and volume of commodities, but with the range of intermediate activities. The attempt to provide commodities for the use of a known and increasing body of consumers leads from retail dealing to wholesale dealing, and from that to manufacture, and finally to the provision of raw materials for manufacture. Here also there are certain well-marked lines of progress, from the manufacture of standardized commodities in general and day-to-day use, to the production of commodities which involve greater difficulty and variety of provision and less continuous demand. Production direct from the soil is difficult to place, since it is concerned both with foodstuffs and with the raw materials of manufacture. It appears early in time, but it has not yet gone very far in relation to the total need.

The problem of the co-operative organization of farming and other "extractive" industries is one which has still to be solved by the movement, in spite of some promising experiments which have already been made, such as the agreements which exist between certain retail societies and neighbouring farmers and small-holders.

The next task is to discover how far these principles and tendencies are operating in the movement to-day, and what promise there is for the future.

§ 2. *Present Trends and Future Possibilities*

It is difficult to avoid the conclusion that the growth of co-operative enterprise has been accompanied by some blurring of the features which distinguish it from competitive private enterprise. As stores or branches have been established in areas where spontaneous Co-operation is non-existent or weak, and as existing societies have outgrown their keen nucleus of co-operative enthusiasts, they have tended to become more and more like any other big business and to adopt the same criteria of success. This tendency away from the original co-operative character has been accentuated by the need, with increase in size, for placing more and more control and direction in the hands of permanent business officials, although this is, of course, partly a result as well as a cause. The essential antithesis between a closed co-operative system which produces goods and services for, and distributes them to, its own membership, under their ultimate direction and control, and a system which separates the producer from the consumer and produces only in response to the stimulus of profit, tends to be lost. The surplus which arises at different stages in co-operative production and distribution, and is distributed in the form of dividend, should be incidental to the whole plan. Instead of that, it is tending to become an *object* of co-operative trading, as it is in private enterprise, with the added danger that, given an assured membership, it may be artificially created through higher prices, instead of arising as a genuine surplus. This represents a perversion of co-operative principles.

But this "profit-mindedness" goes further. Often enough, when the co-operative movement should be actively opposing private vested interests, it appears to be sharing advantages with them, even to the extent of making terms with monopoly and accepting a position of

economic dependence. If Co-operation is to survive as a distinctive movement, the essential opposition between the co-operative system and the system of production for profit must be made clear, both to the officials and to the membership, and the movement as a whole must be prepared for a long and perhaps bitter struggle against restrictive and monopolistic tendencies which are manifesting themselves within the capitalist system. No great movement ever succeeded in the long run by taking the line of least resistance. But if the co-operative movement is to be guided, not by considerations of expediency but by definite principles which are proper to itself, these must be made clear to its members, who must become increasingly aware of the issues which they as a body are called upon to face. How far is the present disposition of the movement such as to make this task a possible one? This leads to a consideration of the extent to which another of the great principles of Co-operation, that of democratic consumers' control, finds its expression in present practice.

We have found reason to question[1] the ordinary, popular conception of democratic control, the notion that all or at least a considerable majority of the members of a movement which claims to be democratically governed must be actively participating in the management of its various activities. We have seen that it is sufficient if a representative section of the membership are aware of the issues to be decided and are prepared to be vocal in criticism and active in service, so long as those who are actually charged with the tasks of administration and control are sensitive to the will of the general body of members. Much of the criticism levelled at the movement on the ground that a large proportion of the members are merely passive and take no share in its deliberations or activities thus falls to the ground. But even with this re-interpretation of the requirements of democracy, there is reason to believe that the present trend of the co-operative movement is away from its original democratic character, and that there may be a corresponding decline of sensitiveness on the part of the leaders to the needs of the general body of consumers. The number of active and informed members is too small in view of the growth in total numbers and in the range of activities. Many of the new regional societies with widely extended areas seem to have preserved little of the original spirit of the movement, except

[1] Chapters 16 to 19.

among the comparatively few members who are in touch with the administrative centre; and there is some danger also that the recent development of branches controlled directly by the wholesales, however necessary it may be for other reasons, may further weaken the democratic character of the movement, unless some new democratic machinery can be added to that which depends upon local autonomy.

Here again, the future of Co-operation as a distinctive system of economic organization is threatened by a departure from fundamental principles. The weakening of democratic control affects the quality of the leadership; the sense of direction is lost; and the way is opened to control by powerfully organized sectional interests within the movement. There is no reason to believe that the qualities upon which democratic institutions in this country were built are less prevalent than they were; or that they are present in greater profusion in the older centres of Co-operation than in the newer; or that they are the monopoly of any class or age-group. If they are less in evidence in the co-operative movement as a whole than they were, the fault lies in the failure to adjust organization to the increased size and complexity of the movement, and in the failure to keep pace, in education and propaganda, with the needs of a rapidly growing membership. These are defects which can and must be remedied if the future of Co-operation is to be made secure.

It will be necessary to return to these problems in the section of this chapter which follows. In the meantime, we shall have to examine existing trends in relation to the principles of expansion already discussed. It is obvious that the character and organization of the movement, and the quality and loyalty of the membership, will be profoundly influenced by the way in which that expansion takes place.

We have seen that there is, in the co-operative system, an innate tendency to expand. Continuous expansion is, in fact, a test of the extent to which co-operative trading principles are being efficiently applied. There is no doubt that, during the greater part of the history of the movement, expansion has, in fact, been taking place rapidly; but it is possible at present to exaggerate its extent. Co-operative trading may increase absolutely while its relative position remains the same. Expansion relative to other forms of trading means an increase which is more than proportionate to the growth in population and to

the rise in standards of living. If this and the increase in prices are taken into consideration, the growth in co-operative retail trade in recent years is less spectacular than it appears at first sight. However this may be, we are certainly justified in concluding that its full capacity for expansion has not been realized. And since, as has been shown in previous chapters, the co-operative system possesses undoubted *economic* advantages over rival methods, the fault must lie once more in failure to understand the principles underlying the system, and in defects of organization and propaganda. Development of the whole system must be purposive, not merely opportunist. An effective increase in co-operative membership, and in the co-operative trading of members, cannot be secured by the ordinary methods of business advertising, even if these were more effectively used than they are. It can only be achieved by spreading a knowledge of co-operative principles and aims, and by a logical development of the capacity of the movement to satisfy, in the most efficient manner possible, and to an increasing extent by means of its own resources, more and more of the wants of a growing body of members.

So far, Co-operation has appealed mainly to the superior sections of the working-class. It has made less appeal to the poorer sections of the community, and not very much to the main body of middle-class consumers. If the movement is to preserve its sense of social purpose, it must adapt itself particularly to the needs of the former. It is obviously vitally concerned in the problem of poverty among large numbers of consumers, and in that sense, as well as in its opposition to profits, it links on to the Labour Movement as a whole. It could do much to arouse to social consciousness large numbers of those who, through stress of circumstance, are incapable of helping themselves and remain a drag on social progress. How far the movement can, at the same time, appeal to the upper levels of middle-class demand, without losing its democratic, working-class character, is a matter for consideration. In so far as the attempt to meet that demand induces a general levelling-up in the quality and taste of co-operative supply, for the benefit of the members as a whole, it will be all to the good. But any such attempt must be directed by considered policy, not merely by the desire to capture a lucrative trade, perhaps at the expense of the essential aims of co-operative effort.

Various difficulties have emerged in this survey of present trends

in the light of the principles of Co-operation. The time has now come to consider these difficulties more specifically, and the means by which they may be overcome.

§ 3. *Obstacles to the Realization of Co-operative Aims*

The position which we have now reached is that, inherently, there is nothing to prevent the expansion of co-operative enterprise until it embraces a wide range of activities leading to the satisfaction of the primary wants of all consumers, including not merely the distribution of a great variety of commodities and services, but also the intermediate activities, from the extraction of the raw materials to the final stage of consumption. A complete system of Co-operation would be large enough also to produce its own capital goods—machinery, buildings, transport vehicles and the like—upon which the output of consumption goods depends. Co-operative retail trading would then become only the final stage of a great, self-contained system of direct production for the satisfaction of the known wants of consumers. Not only is there no reason why this should not happen; actually, the inherent superiority of the co-operative system, which has been clearly demonstrated in this book, should make it inevitable. Yet there is no evidence of a realization of these possibilities; there is an apparent falling off in the sense of social purpose in the movement as a whole; and the movement has also lagged far behind in the task of making itself independent of private production and in new enterprise generally. There are obviously certain hindrances which are obstructing the tendency to expansion. These fall into two main categories: those which are internal to the movement itself, and those which are external to it. The former may be considered first.

(*a*) *Defects of Organization.*—In the early days of the movement, and down to recent times, co-operative organization led the way in distributive efficiency. Success came with the realization of the possibilities of effective local organization, based on the compact urban community. When towns became the centres of regions, these nuclei spread outward, and the result is now an irregular pattern of autonomous societies, sometimes overlapping, sometimes leaving gaps. The intense community feeling for which the earlier forms provided an effective channel is weakened, and little attempt has been made to

create that wider co-operative consciousness which is needed in the new situation, or to devise new channels for its expression. Meanwhile, these narrow local divisions are rapidly breaking down; the most successful capitalist enterprises to-day are conceived and organized on a national basis under single national control. The problem of the co-operative movement now is to secure the same unified direction, without destroying its democratic character or losing anything of its distinctive features.

This is important from the standpoint of technical efficiency, especially in view of the growth of co-operative production on a national basis. But effective technical direction is not the only thing. Broad lines of policy become more important as the movement increases in size and becomes conscious of wider social aims. The present organization actually now prevents the growth of a more effective democracy, capable at least of shaping policy and of laying down the main lines of advance. A movement which consists of a large number of completely autonomous units, subject to no unifying authority, bound to no common policy even as trading units, their only opportunity of discussing authoritatively those matters which affect the general interests an annual Congress with an overweighted programme, cannot effectively work out a common will or apply that common will to the prosecution of its aims. The Co-operative Union, focusing certain of the activities which are common to all of the societies, might, by propaganda methods, do more than it does to unify co-operative sentiment and to encourage the development of common purposes throughout the movement. It cannot, however, be really effective with its present organization, and it has no power to impose its authority on the individual societies. The C.W.S. Board is equally unable to give the necessary lead since it also is without authority in relation to the societies, and the S.C.W.S. is in the same position. The absence of any central directive authority is an undoubted source of weakness.

The absence of unity and of a common policy is shown by the fact that, in 1936, out of 1,777 societies included in the Co-operative Union, only 526 were members of the International Co-operative Alliance, 671 only were associated as shareholders in the Co-operative Press, only 144 were participating in the collective advertising scheme, and 489 only were affiliated to the Co-operative Party.[1] It might be added

[1] Mr. George Riddle, Presidential Address, Co-operative Congress, 1936.

that there is no such thing as a national co-operative membership, and that the member of one society buys from another society as a stranger.

The urgent need to-day is for the creation of a unified central authority for the co-operative movement as a whole, answerable to a united co-operative democracy, capable at once of providing for the effective control of the whole system, and of mobilizing opinion and representing the co-operative movement to the outside world. Although this is not the place to work out the details, it is not impossible to conceive of an elected co-operative parliament, which would meet often enough and with sufficiently long sessions to deal adequately with large questions of policy, electing in its turn a "cabinet" which would be the central executive authority of the movement. The local societies would preserve their autonomy in local matters, but would have to be subject in all matters affecting the common interest to the central authority which they themselves helped to elect. Elections would have to be so planned as not to place the control in the hands of a few large societies. The co-operative parliament, if it was to be effective as the directing authority, would have to be given definite powers and a large measure of control over central finance. A body of this kind, representing and controlling an expanding co-operative economic system, would become one of the most powerful influences in the State, capable of directing economic policy so as to ensure the widest distribution of those benefits which modern civilization and the modern technique of production should enable all to enjoy.

There is, however, another limitation which, even more than imperfect organization, is likely to impose a check on the further growth of co-operation, and is indeed one of the most serious obstacles in the way of all democratic progress.

(*b*) *Defects of Leadership.*—It is not intended here to level criticism against those who have been charged with the difficult task of directing co-operative enterprise, whether nationally or locally. They are the product of the movement and have had to work within the limitations imposed by the existing structure. Through defects of recruitment,[1] too much has been imposed upon too few people. The movement has never attached sufficient importance to the use of trained ability on a scale commensurate with the size and complexity of its opera-

[1] See Chapter 19.

tions. Moreover, opportunities of leadership are not easily found in an organization so lacking in homogeneity and in central direction. Improvements in organization would undoubtedly make the existing leadership more effective.

Nevertheless, the problem of personnel is urgent. The possibilities of growth in any system are limited by the amount of ability at its disposal. The present trend of capitalist enterprise is to lay great stress upon high technical ability at the top and to reduce labour at the bottom to a routine. It is against the traditions and sentiments of the co-operative movement both to offer high monetary rewards to scarce abilities and to accept the regimentation of labour which advanced technical knowledge makes possible. Its choice of leaders tends to be limited to those people who have the necessary abilities and are, at the same time, so imbued with the spirit of service that they are willing to sacrifice greater gain in the monetary sense in order to serve a cause. The supply of people of this kind is at present seriously limited; and the buying up and monopolizing of scarce abilities by capitalist enterprise may become a grave menace to the future progress of Co-operation. Moreover, the urge to serve the cause of Co-operation is not helped by the failure to make its aims clear.

The remedy for the shortage of the higher grades of ability lies obviously in the direction of making them less scarce. The co-operative movement has a direct interest in increasing the State provision of education, so that opportunities of higher education might be open to all. So far, it has failed even to use the trained ability which is made available for it by the present educational system. Even the advantages of secondary education have not been realized; and recruitment from the Universities is almost unknown. The sons and daughters of working-men who go to the Universities, and the growing number of adult working men and women who are now given the same opportunity of University training, can find no outlet for their abilities in the service of Co-operation. Is it not time that the co-operative movement opened its eyes to what the rest of the world is doing?

But the movement must also develop its own educational system with a breadth of vision which has been lacking in the past. Instead of paying exorbitantly in order to gain or retain an inadequate share of scarce abilities of leadership (and there are signs of the adoption

of that policy in some of the larger societies), it should use its funds more widely to make these abilities less scarce in relation to its own peculiar needs. The co-operative movement has in this a function to perform which cannot at present be taken over by the State: it has to educate a new type of individual with a new conception of service. His training must be related to the aims of Co-operation in the widest sense. He needs much more than mere technical ability: he must be constantly aware of the ends which Co-operation exists to serve and of the means by which they may be achieved. This need for the training of "political" as distinct from purely technical abilities is not, of course, confined to the full-time personnel of the movement. It applies also to those who are giving voluntary service to Co-operation. We cannot too strongly urge the need for raising co-operative education to a much higher level, if the quality of service and leadership is to be equal to the claims imposed upon it.

(*c*) *Defects of Education and Propaganda.*—One aspect of the need for a developed system of co-operative education has been referred to in the previous section.[1] There is a more important aspect still. The need for a clear perception of aims has become urgent in view of the changed character of the movement and the necessity for re-creating in its members a sense of unity and purpose on a national or even an international basis, as opposed to the local group-consciousness of the early days. It was easy to perceive the significance of co-operative effort when it was limited to comparatively small groups already united by common bonds of locality and employment. The need for loyalty to the local store was easily understood. With the growth in size and the multiplication of branches, co-operative shops now appear to a great majority of the large body of members as convenient shopping places, not as part of a movement in which they are vitally concerned. Yet, as we have seen, a high degree of co-operative loyalty is a necessary condition of future advance, and it becomes more difficult to ensure this as rival methods of trading and propaganda become more efficient. For the co-operative movement merely to imitate capitalist methods of advertising would be to sacrifice one of its greatest economies; and it would not make co-operators in any real sense. The propaganda of ideas is more important for the future of Co-operation than the propaganda

[1] See also Chapter 28, p. 510.

of trade goods. Given a wide appreciation of the benefits and aims of Co-operation, together with a high level of efficiency in production, and co-operative goods will sell themselves. The education of members as co-operative consumers will not only unite them into a conscious national body, but will also make possible a rationalization of the whole co-operative system; and to educate them in the ideals of the movement will bind the whole membership into an effective force for the realization of co-operative aims.

To create a worthy co-operative service of education and propaganda is thus one of the essential needs of the movement at the present time. It is as necessary to the co-operative commonwealth as it is to the political state. The task needs vision and high intellectual endeavour. It needs men who are capable of creative thought; it needs those who can teach and write and inspire; it needs a centre of inspiration and research equal in quality to the post-graduate schools of Universities, but moved by the spirit which actuated Owen and the early pioneers. This task of education and propaganda cannot be left to local initiative, although local initiative should be used whenever possible. It is worthy of the best energies and abilities which the movement as a whole can devote to it.

(*d*) *External Hindrances.*—As the movement becomes more purposive and more conscious of itself, the essential conflict between the co-operative system of economic organization and its rivals will become more apparent. It is not intended to suggest that there can be no compromise with any other form of economic organization. The possibility of mapping out the ground as between municipal and state enterprise and the co-operative system must be clearly envisaged; and there are certain forms of capitalist enterprise which are coming more and more to be organized as public utilities, and in which the profit motive is less and less in evidence. But Co-operation, by its very nature, finds itself in conflict with the most aggressive and most strongly entrenched forces of private enterprise—those which depend for their existence upon exploitation of the consumer. In so far as Co-operation aims at the rationalization of consumption and the abolition of private profit in the satisfaction of consumers' wants, it cuts the ground from under the feet of powerful vested interests. However much the movement may desire to live at peace with the rest of the economic world, it will not be allowed to do so, unless it is prepared to accept definite limits to its activities. Attempts

will be made, as they have already been made, to use the power of the State and of the Press to check the further growth of the movement. Co-operation must be prepared to meet the challenge.

There will be wide differences of opinion as to the way in which this challenge should be met. Because the rival interests had the ear of Parliament, and the interests of Co-operation seemed to be threatened by Government action, the movement decided to enter the political arena. It was felt that the existing Labour Party, which seemed the natural ally of the co-operative movement against the opposing capitalist interests, did not express the co-operative view of the economic system, and it was decided, therefore, to form a separate political party. But since there was no clear understanding of objectives, and since the politically conscious members of the movement were already engaged in the Labour interest, and others were opposed to any possible form of political activity, the result was to confuse the issue. Co-operation can only become an effective political force when it has made up its mind as to what it wants; and it can only act if it can carry its membership with it.

It would be a mistake, in any case, to suppose that the future of Co-operation could be secured merely by changing the complexion of the House of Commons. The only way ultimately to overcome the opposing interests is the way of greater efficiency; and in achieving that, the movement will acquire political power. There is also the possibility of dividing the opposing forces. Co-operation need not, and indeed cannot, aim at eliminating every kind of private enterprise. It can, for a long time to come, work amicably with those undertakings in which professional excellence and public service are more important than soaring profits. Its vast resources, inadequately used as we have seen, would enable it at least to share in the control of such enterprises. Moreover, many of the smaller entrepreneurs like farmers and other specialist producers, are threatened equally with Co-operation by the growth of monopoly interests and they would be better off working for an enlarged consumers' co-operative movement. Examples of this are already to be found in the production of fruit and vegetables and, at the other extreme, wireless sets, for co-operative consumption.

The greatest danger at the present time arises from the tendency to State intervention on the side of large producer interests. The extension of Co-operation depends upon its ability to conquer more

and more of the territory at present occupied by private enterprise. The present policy of Marketing Boards and quota systems, supported by protective tariffs, aims at a delimitation of territories and must lead to a "walling-in" of the co-operative movement. Capitalism has entered upon a new, restrictive phase, in which the attempt is made to prevent the establishment of new competitive businesses and to limit the expansion of existing concerns at the expense of their competitors. If this policy were allowed to establish itself securely, the way to co-operative expansion would be closed. The co-operative movement would be forced to enter one capitalist ring after another, and to accept quotas based upon existing outputs, thereby forgoing the right to expand except in the same ratio as its capitalist rivals. If that position were reached, the co-operative movement would have been effectively absorbed into the capitalist system. The movement must mobilize its forces in opposition to this growing policy of restriction. It must do this in its own interest; for so long as these restrictions remain and are fostered by the State, the future progress of Co-operation is jeopardized. It must also attack this policy in the interest of the general body of consumers; for Co-operation stands to-day as the only potential political force for the protection of consumer interests.[1]

There is another important reason for opposition to the policy of restriction. The realization of the aims of Co-operation in the future depends on the freest possible movement of commodities across national boundaries. The growth of Co-operation in other countries and the system of exchange between the British wholesales and similar organizations abroad, provide the basis for a rational system of international trade, free from the dangers which arise when trading is regarded as mutual exploitation and is made to serve the interests of rival imperialisms. Everything that has been said about Co-operation nationally applies equally to Co-operation internationally. Certain vested private interests stand to lose by freer international trading relations, which are nevertheless advantageous to the community as a whole. Co-operation can only gain by expansion, both nationally and internationally. If the movement could make this position clear, it might increase its own political influence enormously and at the same time serve as one of the most powerful factors in the cause of international peace and understanding.

[1] Cf. G. D. H. Cole, "Producers' Control", *People's Year Book*, 1936.

There is no doubt that political influences represent an obstacle to the realization of co-operative aims which must be overcome. We have already expressed doubts as to whether the attempt to form a separate political party, before there was any agreed co-operative policy accepted by a united membership, was the right way of meeting this difficulty. The alternative, when political action was necessary, was to work with one or more of the existing political parties, and that, in practice, meant working with the Labour Party. Whether there can be any permanent political alliance between Co-operation and Labour will depend on the future trend of Labour policy. It has already been suggested that the co-operative movement must be opposed in principle to every form of economic control or political organization based upon sectional producer interests, whether on the side of capital or on the side of labour. The form of socialism which is based upon the principle of workers' control is just as much opposed to the co-operative ideal of society as is the existing system of capitalist control. This has not yet been clearly understood. The conflict of ideals within the labour movement must, in the interests of clear thinking, be made conscious. In theory, the opposing views cannot be reconciled. But it may be possible, in a practical and imperfect world, to secure some balance between them.

§ 4. *Conclusion*

This book stops short of prophecy. It has been considered sufficient to trace the processes of growth; to describe the form and character of co-operative enterprise and the principles on which it is based, both in its economic and in its social and political aspects; and to discuss present trends and the obstacles in the way of future expansion. In the process of doing this, certain weaknesses have been exposed; but no one could conclude this study without realizing the enormous possibilities which have also been revealed. It is for others, inspired, it is hoped, by the results of this investigation, to work out in practice what the future of the co-operative movement is to be—either a reasonably efficient large-scale business aggregation, or a new system of economic organization gradually replacing the old. In the first aspect, it has to compete with other efficient national enterprises in its own field; in the second, with other plans for social

reorganization. From either point of view it must know how it stands, and the conditions of success must be made clear.

There is this to be said, finally, for the wider possibilities of Co-operation: it is the only alternative scheme of economic organization actually in existence in this country, and the only attempt at general economic planning on a large scale. It has achieved its present scope and dimensions without sacrificing anything of the principle of voluntarism. It may, therefore, be regarded as the possible middle way between *laisser faire* liberalism and rigid planning on a compulsory basis, and in this aspect it has a strong claim to the allegiance of all those who believe that some form of economic planning is necessary, in the interests of order and justice, but who dislike the element of coercion in other systems which are offered for their approval.

APPENDICES

APPENDIX I

SHOWING THE PROGRESSIVE DEVELOPMENT OF C.W.S. PRODUCTIONS FOR THE YEARS 1873, 1874 AND 1875, AND THEN AT QUINQUENNIAL HALTS TO JANUARY 1936: GROSS VALUE OF SUPPLIES

Industry	YEAR ENDED: January 1874	January 1875	January 1876	December 1880	December 1885	December 1890
	£	£	£	£	£	£
Biscuits, etc.	(a) 2,987	13,189	13,664	19,155	21,480	51,916
Soap, etc.	—	(b) 2,099	9,264	11,732	17,911	28,456
Woollen	—	—	—	—	—	13,069
Clothing	—	—	—	—	—	6,203
Boot and Shoe	(a) 3,422	29,456	53,686	87,717	132,130	241,633
Total	(a) 6,409	44,744	76,614	118,604	171,521	341,277

(a) One quarter's trade only. (b) Six months' trade only.

Industry	YEAR ENDED. December 1895	December 1900	December 1905	December 1910	December 1915	December 1920	December 1925	January 1931	January* 1936
	£	£	£	£	£	£	£	£	£
Biscuits, etc.	100,254	131,493	164,268	189,677	264,758	842,473	585,939	728,465	706,491
Preserves, etc.	—	163,927	261,687	353,912	591,703	2,603,626	1,362,366	1,327,426	1,546,020
Glass	—	—	—	—	—	42,620	28,024	69,104	194,993
Soap, etc.	59,164	278,933	458,946	924,809	1,449,698	4,076,499	2,230,712	2,615,023	2,005,979
Flour and Provender	408,006	679,489	1,124,044	2,899,562	7,175,385	12,906,612	11,040,505	8,304,841	8,003,660

Tobacco	—	222,540	471,126	690,930	824,362	1,595,818	1,392,889	1,409,991	1,310,233
Lard	—	118,499	90,647	128,516	149,062	438,707	298,343	200,280	170,528
Margarine, etc.	—	—	—	—	—	2,915,516	2,563,244	2,958,311	2,560,332
Oil and Cake	—	—	—	—	—	—	1,013,311	851,526	877,069
Printing, etc.	7,511	65,340	106,451	183,514	259,663	845,455	670,224	832,303	1,095,308
Rope and Twine	—	—	—	—	—	—	97,026	93,732	90,310
Colliery	—	—	—	—	—	80,493	90,880	173,005	188,759
Bacon, etc.	—	—	—	—	—	—	—	—	943,901
Butter	—	—	—	—	—	—	—	—	2,271,651
Drug, Confectionery, and Grocery Packing	—	—	—	—	—	—	—	52,753	2,084,782
Canning	—	—	—	—	—	—	—	—	619,500
Milk Products	—	—	—	—	—	—	—	—	169,815
Miscellaneous Grocery, etc.	—	—	—	—	—	—	—	—	263,691
Flannel, Blankets, etc.	—	20,086	22,399	25,188	39,780	214,055	100,837	105,970	97,459
Hosiery	—	—	67,457	85,642	185,419	561,775	307,624	388,220	440,857
Corset, etc.	—	—	5,142	29,237	49,943	197,068	170,801	169,446	234,232
Shirt	—	—	—	96,139	199,373	784,286	423,108	510,922	511,886
Mantle	—	—	—	—	—	—	105,052	116,007	97,397
Belmont Garment	—	—	—	—	—	—	68,740	90,523	173,660
Quilt	—	—	—	—	—	—	—	—	82,183
Woollen	24,026	44,168	48,991	51,908	75,407	531,354	374,036	313,676	265,451
Fellmongery, etc.	—	—	—	—	—	—	818,137	546,700	582,275
Cotton	—	—	27,620	98,124	208,285	1,245,642	450,591	477,295	419,161
Clothing	35,717	89,488	122,648	145,181	242,858	620,659	380,216	530,337	568,586
Boot and Shoe	324,278	434,869	511,658	541,573	865,586	1,885,728	1,306,995	1,630,833	1,589,838
Tanneries	—	—	—	—	—	261,123	114,469	130,288	170,931
Cabinet and Bedding	8,571	15,256	48,140	61,062	93,173	419,718	445,077	569,426	903,484
Brush and Mat	—	—	12,337	29,003	43,529	93,858	98,523	111,074	127,662
Ironworks	—	—	—	17,254	32,189	80,656	68,650	75,370	89,026
Bucket, Fender and Electrical	—	—	—	23,567	41,122	92,626	76,267	54,350	96,671
Tinplate, etc.	—	—	—	6,512	6,745	14,911	14,420	30,355	104,740
Paint, etc.	—	—	—	—	14,914	89,188	72,691	110,489	168,599
Pottery	—	—	—	—	—	—	20,367	18,101	27,113
Cycle	—	—	—	—	—	—	143,792	172,100	278,112
Aluminium and Cutlery	—	—	—	—	—	—	67,009	60,184	164,061
Total	967,527	2,264,088	3,543,501	6,581,310	12,812,954	33,404,466	26,900,865	25,825,426	32,296,406

* It will be seen that some of the items differ from the appropriate figures given in Fig. 44*b*. This is due to a different grouping of the smaller plants in the two tables. In Fig. 44*b* the grouping has been arranged to coincide with that of the comparable retail societies' plants, and in the above table with their original associated plants.

APPENDIX II

NOTE ON SOURCES OF STATISTICS

THE main source of the statistics relating to all co-operative societies is the statistical section of the *Annual Report of the Co-operative Congress*. This is now also published annually as a separate book under the title *Co-operative Statistics* and can be obtained from the Co-operative Union, Hanover Street, Manchester. Additional information about the trading activities of the wholesale societies is published annually in the *People's Year Book*, obtainable from the C.W.S., Balloon Street, Manchester. For detailed figures of retail societies' trading operations the quarterly or half-yearly balance sheets and trade reports of representative retail societies should be studied. The main sources of the statistics used in this book are shown below:—

Chapter 1.	Figures of membership, capital and trade of societies in different years are taken from the *Annual Reports of the Co-operative Congress.*
Fig. 2, page 62.	*Co-operative Statistics*, 1935.
Fig. 3, „ 63.	*Annual Reports of the Co-operative Congress.*
Fig. 4, „ 64.	*Co-operative Statistics*, 1931.
Fig. 8, „ 75.	*Co-operative Statistics*, 1935.
Fig. 9, „ 78.	Balance sheets and trade reports of the societies listed in the table, and local enquiries.
Fig. 11, „ 92.	Information supplied by the societies listed in the table.
Fig. 14, „ 108.	Based on information provided by the Co-operative Union and statistics taken from an article by A. E. Feavearyear in the *Economic Journal*, March 1934, and from *National Income and Outlay*, by Colin Clark.
Fig. 15, „ 115.	*Co-operative Statistics*, 1935.
Fig. 16, „ 130.	Information provided by seven representative retail societies.
Fig. 17, „ 131.	*Co-operative Statistics*, 1935.

Chapter 6. § 3.	Information provided by the wholesale societies.
Fig. 18, page 139.	*Co-operative Statistics*, 1935 and balance sheets of the wholesale societies.
Fig. 20, „ 156.	Information supplied by C.W.S.
Fig. 21, „ 159.	Information supplied by C.W.S.
Fig. 22, „ 160.	Based on *Co-operative Statistics*, 1935, and information provided by the Co-operative Union and the wholesale societies.
Fig. 23, „ 162.	Information provided by C.W.S.
Fig. 24, „ 164.	Information provided by S.C.W.S.
Fig. 25, „ 165.	Information provided by C.W.S.
Chapter 8.	All figures used in the text were provided by the Co-operative Insurance Society and the C.W.S. Health Insurance Section.
Fig. 26, page 186.	*Co-operative Statistics*, 1935.
Fig. 27, „ 191.	Figures obtained from balance sheets of the productive societies.
Fig. 28, „ 202.	Information provided by Co-operative Union.
Fig. 29, „ 216.	*Co-operative Statistics*, 1935.
Fig. 30, „ 233.	*Report of Co-operative Congress*, 1936.
Fig. 31, „ 252.	Information provided by societies listed in the table.
Fig. 32, „ 337.	Based on information provided by the Co-operative Union and texts of labour agreements published in the *Drapers' Record*, the *Grocer*, and the *Shop Assistant*.
Fig. 33, „ 341.	*Report of the Select Committee on Shop Assistants*, 1930 and 1931.
Fig. 34, „ 346.	*Co-operative Congress Report*, 1935.
Fig. 35, „ 352.	Taken from the publications of the Trade Unions referred to.

Fig. 36, page 359. Based on figures from *Co-operative Statistics*, 1930, in conjunction with the *Co-operative Directory* (from which the number of co-operative branches was obtained), *The Distribution of Consumable Goods*, by Braithwaite and Dobbs, and the *U.S.A. Census of Distribution*, 1930.

Fig. 37, „ 375. Retail societies' balance sheets and *Bulletins of Harvard Bureau of Business Research.*

Fig. 38, „ 377. Based on figures from balance sheets of a representative group of retail societies, *Bulletins of the Harvard Bureau of Business Research*, *Reports of the U.S.A. Federal Trade Commission*, and information from the Retail Distributors' Association.

Fig. 39, „ 382. *Bulletins of Harvard Bureau of Business Research* and balance sheets of retail societies.

Fig. 40, „ 388. Results of an investigation made by Birmingham University Department of Commerce.

Fig. 41, „ 390. Results of an investigation made by Birmingham University Department of Commerce.

Fig. 42, „ 395. *Co-operative Statistics*, 1935, and information provided by Co-operative Union, C.W.S. and S.C.W.S.

Fig. 43, „ 410. *Report of the Registrar of Friendly Societies.*

Fig. 44*b*. „ 415. Figures provided by Co-operative Union, C.W.S. and S.C.W.S.

Fig. 46, „ 441. Based on figures provided by C.W.S., and rates of profit of joint stock companies from figures published in Mathieson's *Stock Exchange Record.*

Fig. 47, „ 450. Results of an investigation made by Birmingham University Department of Commerce.

Fig. 48, „ 479. Reproduced from *Public Enterprise*, edited by W. A. Robson, George Allen and Unwin, 1937.

APPENDIX III

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been preserved by the Co-operative Union and the C.W.S., and can be consulted at their headquarters in Manchester. The old files of the *Co-operator* (1860–72) and of the *Co-operative News* provide another rich source of historical material. For the earlier period the Owenite journals (*The Economist*, 1821–2; the *Crisis*, 1832–4; *The New Moral World*, 1835–6) are valuable; also the *Brighton Co-operator*, 1828–33.

PART II. THE STRUCTURE OF THE CO-OPERATIVE MOVEMENT

CHAPTERS 2 TO 15

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PART III. CO-OPERATIVE DEMOCRACY

CHAPTERS 16 TO 19

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CHAPTERS 20 TO 27

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