

# Principle 5 Study Group

## The Co-operative Movement: Beginnings

### Part Two

#### The Rochdale Principles

Recommended reading: G. D. H. Cole's very helpful book "A Century Of Co-operation". It was published in 1944 by the Co-operative Union, Holyoake House, Manchester, to celebrate the Rochdale Pioneers Centenary.

Pages 64 – 74 explain the Rochdale principles.

<https://www.principle5.coop/books/a-century-of-co-operation>

(21<sup>st</sup> December 2019 marked the 175<sup>th</sup> anniversary of the opening of the Toad Lane store).

Johnston Birchall's book 'Co-op: the people's business' is an excellent starting place for anyone wanting to study the Co-operative Movement. The story right from the beginning has a direct bearing on the modern day Co-operative Movement. I would encourage anyone who is interested in the movement to read this book.

<https://www.principle5.coop/books/co-op-the-peoples-business>

I have used both these books. Quotations from Birchall, Co-op: the people's business in blue.

1. **Democratic Control.** One member one vote irrespective of member's shareholding or the amount of purchases made in the store. Democracy was at the very root of the agitation for the Charter and an essential foundation for the co-operative.

(NOTE: The members of the Co-operative Wholesale Society (CWS) were not individuals but Societies of widely varying scale. In this case, the members voting rights depended on the amount of purchases made from the CWS. This is still the way that the CWS successor 'The Co-operative Group' organises voting rights for their corporate members).

The Pioneers left very little to chance. They were cautious, practical and experienced people. They set out their rules in detail in 1844, then amended them in 1845 and 1854. They expressed eight fundamental principles. The first was **democracy**, the principle of one member one vote. There is nothing remarkable in this, since it is what Chartism was all about, and in their chapels and friendly societies and trade unions, the Pioneers would be familiar with it. What was remarkable was that they were applying it to

business; they could have given votes in proportion to share capital, as in capitalist firms, or in proportion to purchases, but here power was shared out to persons not to property. Persons also meant women; though they do not seem to have taken an active role in the Society at this stage. Beatrice Potter pointed out that forty years before married women were allowed to keep their own property, women members got some control through having their own share account; the cashiers insisted that husbands who wanted access to it go through the courts first.

2. **Open Membership.** This goes closely with equal voting rights. Anyone can buy a £1 share and become a member on equal terms with the existing members. It prevents members selling their shares at a profit. The £1 share can never rise above the value of £1.

The second principle was **open membership**. At first they limited the number of members to 250, probably because they had not yet realised that they could grow by opening branches, and because they did not have much legal protection; the 1852 Industrial & Provident Societies Act, which some influential supporters sponsored for their benefit, gave them proper legal status, (though full limited liability was not granted until 1862) and so after this, membership was allowed to grow and grow. The Act allowed them to sell to non members, but this remained the exception, the rule being that the members and the users of the co-op's services were one and the same. The important point about this principle is that it was a generous one. It allowed new people to come in on a down payment of only a shilling, making the social wealth built up by past generations instantly available to newcomers. There would be none of the hoarding of profits by the original shareholders that we find in capitalist companies. The application of this principle can be judged a success; having aimed at a membership of 250, by 1880 the co-op had over 10,000 members, a large proportion of the local population.

3. **A fixed or limited capital on interest on capital subscribed to the Society.** This goes back to the time of Robert Owen's advocacy of "villages of co-operation" and was already well established in the Movement. Sometimes local co-operative societies which had sprung up in the 1820's and 1830's has not applied this principle. Some of them had received capital as gifts and others had divided their profits, if any, according to the sums they had subscribed to the venture. This principle set a standard for the building of the Co-operative Movement.

The third principle was **fixed and limited interest on capital**. 'Fixed means that interest does not rise or fall with profits as it does in a capitalist company, and 'limited' means that the Society will only pay out for capital what it absolutely has to in order to finance its own development. It was one of Robert Owen's principles, that while capital has to be paid for, it should not enable the lender to cream off the surplus made from the labour of others. In this case the rate was fixed in 1844 at 3.5 per cent, then set at varying rates by members meetings, until in 1854 a maximum of 5 per cent was written into the statutes. Holyoake points out that many co-op's had failed because they refused to pay interest on capital at all, but the Pioneers were pragmatists; they recognised that in order to attract capital they had to pay for it and that owners were entitled to some payment for the risk attached to lending it.

#### **4. The distribution of the surplus, after the payment of interest and collective charges in dividend to the members in proportion to their purchases.**

The fourth principle; **distribution of the surplus as dividend on purchases**, the famous 'Co-op divi'. This was the decisive step in breaking with the old Co-operative Movement which had assumed that surpluses would be built up until a co-operative community could be formed. There are in fact three kinds of people who can benefit from surpluses: those who lend capital, those who work in the business and those who are consumers. The distribution on the basis of purchases marked the Society off from both capitalist and worker owned enterprises and turned the Pioneers (though they may not yet have realised it) into a **consumer** co-operative. There was nothing remarkable in this. Though one of the Pioneers, Charles Howarth, had to reinvent the idea (perhaps because it had been frowned upon by strict Owenites. Alexander Campbell, the 'father of Scottish co-operation' had been recommending it ever since 1822, and there were in fact several co-op's which had been using the dividend principle since the mid 1820's, including Lennoxton in Scotland and Meltham Mills in Yorkshire. A meeting of the First Western Union Co-operative Society in 1832 had reported that dividend on purchases "would confer immediate benefit upon all those who dealt extensively at the store and remove the discouragements which the most zealous and persevering co-operators had hitherto experienced".

In practice it did just that. Holyoake tells some remarkable stories of poor people who, having been in debt to shopkeepers for thirty or forty years, suddenly found themselves with money in their pockets and £20 in their share account. Though the dividend was low at first, three pence in the pound, it rose steadily until the Society was paying two shillings and sixpence in the pound (twelve and a half p). One old man claimed that in 11 years he had accumulated £77 in dividend, which had kept him out of the poor house in his old age.

## 5. Cash Trading.

The fifth principle was **cash trading**. This may seem unimportant today, and is no longer regarded as an essential principle, but to the Pioneers it was most important; though they knew it would restrict their membership, they felt so strongly that they wrote into their rules that any officer giving or taking credit was to be disqualified from office and fined ten shillings. There was a universal dislike of being in debt to shopkeepers, but more than that, there was a realisation that previous societies had foundered on credit. As Holyoake said:

“So many co-operative experiments had been stranded by credit, that an almost universal opinion was prevalent, not only in Rochdale, but throughout the country and in Parliament, that co-operation was an exploded fallacy”.

Again, the principle seems to have paid off because, though its strict application in the early years undoubtedly limited its growth, the Society grew anyway.

## 6. Selling only pure and unadulterated goods.

The sixth principle was selling only **pure and unadulterated goods**. This was not a written rule, but appeared in an important statement of first principles in the Almanac of 1860. We might think that providing wholesome, and untainted food and giving full weight and measure to the customer ought to be taken for granted in a consumer owned and controlled business. Yet there were considerable trading risks involved. Take the case of the flour which, though produced in their own mill, was rejected by members because it was browner than usual. Holyoake tells us that the directors could have bowed to pressure to add chemicals to whiten it, but that this was so much against their principles that they preferred to take the risk and after much discussion with the customers the pure flour eventually gained acceptance. Looking back on the story many years later Holyoake added this comment;

“The members had become more intelligent; they had learned the nature of good flour when they had it; their tastes were better educated than that of many gentlemen of the middle class, and the Directors were able to tell the purchasers, in a reckless manner ‘if they wanted to adulterate the flour they could do it themselves’ “.

More generally, the effect of such commercial honesty was that buyer and seller were able, for the first time, to meet as friends, without suspicion on either side. Their surroundings may have been humble, the warehouse at Toad Lane unfashionable, but the relationships between the people were of the highest quality. Members were able to send their children on errands to

the store, knowing that they would not be taken advantage of, and that all would be treated alike and given the right quantity and quality of provisions. Adulteration remained a feature of commercial life well into the 20<sup>th</sup> century, but as Holyoake describes it, the members of this humble co-op had gained access to goods which even the well off could not be sure of obtaining.

## **7. Promotion of Education**

The seventh principle was **Education**. The famous rule appears in the 1854 statutes, that a separate and distinct fund be set up for the 'intellectual improvement of the members' and their families. It was to be funded out of a 2.5 per cent levy on surpluses, and to have its own committee of 11 members, appointed at the annual meeting. The rule was a way of making systematic what the Pioneers had always done: as Owenites, they believed that only through basic education could people's characters be changed, and as followers of Dr. King that only through acquiring commercial skills could they trade successfully. In 1846 they were already holding regular Saturday afternoon discussions at the store, and in 1848 they were able to set up a newsroom and book department, buying up the library of a failed people's Institute. By 1850 they were running their own school and adult education classes, and by 1860 had established the principle that each branch should have its own newsroom and library above the store.

So keen were they on education that they had originally proposed a levy of 10 per cent on surpluses, but because education had (through an oversight) not been included in the 1852 Act, the Registrar of Friendly Societies would not let them register it. The contest with the registrar lasted several months, but eventually the 2.5 per cent seems to have been agreed as a compromise: it is a compromise that many co-op's since then have found hard to live up to, but which is always cited as the measure of how committed they are to education. It caused disappointment at the time: Holyoake comments bitterly that the law seemed to prohibit workers from educating themselves, but the government refused them the vote on the grounds that they were not educated.

## **8. Political and religious neutrality.**

The eighth principle was **political and religious neutrality**. Political neutrality was assumed from the start, at least between different types of working class radicals: Chartists, Owenite Socialists, Corn Law Leaguers and so on. Religious neutrality was also assumed from the start, because among the Pioneers were Owenite secularists and members of a Unitarian congregation; at least one of them, John Garside was a local preacher. So they were reared in what Holyoake (himself a militant atheist) called 'a school of practical toleration'.

Without this principle of religious neutrality, they might have been regarded by their contemporaries as adherents of Owen's 'Rational Religion' or Holyoake's Secularism. But in their early days, it is unlikely that they expected to attract anyone from the more securely established religious sects. Of the Pioneers themselves, there was a "Cookite" (a brand of Methodist Unitarian indigenous to Rochdale), Swedenborgians (also associated with Unitarians) and a local preacher, but the others had no religious affiliations.

Finally, in the 1854 statutes, the Pioneers added one more principle, that of **disposal of net assets without profit** to members; in the unlikely event that the Society might be wound up, the trustees would have to pay everyone what they had in their share accounts, and then distribute the rest of the assets to other co-operatives or to a charity. This means that no one would be tempted to break up a co-op just to get at the assets. It is a rule which, with open membership and continued growth, they did not really need, but which has become crucial to the success of worker co-op's; in France, for instance, the state insists on it, and so the worker co-op movement has had a firm basis upon which to build. This is now enshrined in British law.

The Rochdale Equitable Pioneers Society built the foundations of the Co-operative Movement which has grown to its present day strength. Many of the issues which the Pioneers had to deal with are the same as the present day Co-operative Movement has to face. An understanding of the road which previous generations of co-operators took will help us in the modern day Co-operative Movement.

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The most recent revision of the Co-operative Principles was adopted by the International Co-operative Alliance (ICA) in 1995.

The Statement on the Co-operative Identity which contains the definition of a co-operative, the values of co-operatives, and the seven co-operative principles is shown below.



## **Co-operative identity, values & principles**

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

### **Values**

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

### **Principles**

The co-operative principles are guidelines by which co-operatives put their values into practice.

#### **Principle 1: Voluntary and Open Membership**

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

#### **Principle 2: Democratic Member Control**

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

#### **Principle 3: Member Economic Participation**

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

#### **Principle 4: Autonomy and Independence**

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

**Principle 5: Education, Training and Information**

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

**Principle 6: Co-operation among Co-operatives**

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

**Principle 7: Concern for Community**

Co-operatives work for the sustainable development of their communities through policies approved by their members.

More information about the values and principles can be found at:

<https://www.ica.coop/en/cooperatives/cooperative-identity>