Co-operatives in the Twenty First Century

Johnston Birchall

If I were writing this speech twenty years ago, I might have been tempted to begin with a description of all the problems faced by humankind - poverty, famine, civil war, over-population, racism, environmental degradation and so on. I might then have celebrated the achievements of co-operatives with some impressive statistics provided by the International Co-operative Alliance, showing how many hundreds of millions of people are members of one kind of co-operative or another. I might then have shown how the co operative movement can contribute to the solving of the world's problems, and ended my speech on a triumphant note about how co-operative principles are still relevant, and how we must intensify our efforts to bridge the gap between co-operatives' promise and their performance.

It is no longer possible to talk in this way. At the beginning of the new century, we look back at the last century as much in sorrow and disappointment as in satisfaction with our achievements. The situation co-operators find themselves in is too complex to allow for simple generalisations, and too serious to allow for easy solutions. A few years ago, I wrote a book called *The International Co-operative Movement*. One of my reviewers commented that to talk of a co-operative 'movement' was to over-emphasise the cohesiveness and strength of this form of organisation. I have to admit that he had a point. You see, we cannot just call ourselves a co-operative 'movement' - it is a title that has to be earned. In some places - notably Japan - there is a real social movement that carries forward the co-operative principles in a direct line from its originators, Robert Owen and the Rochdale Pioneers through promoters such as Toyohiko Kagawa to present day co-operators. In other places, co-operatives are a subsidiary part of a wider social movement based on important, but not particularly co-operative, values, or they are just one business sector among others. In parts of the world where co-operatives are not very well established or have declined in numbers, we cannot even call them a sector.

A short history of the co-operative movement

In the nineteenth century, there was a great burst of activity among people who were feeling the terrible effects of the industrial

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revolution. They created entirely new forms of organisation - in Britain the consumer co-op, in France the worker co-op, and in Germany the credit bank and agricultural co-op - that rapidly spread to other industrialising countries. Those who copied these new forms did so consciously, acknowledging their common origins and expressing their sense of solidarity in the newly formed International Co-operative Alliance. It is true that the co-operatives were aligned with other social movements aiming to secure people's rights as workers and citizens, but the co-operative movement was strong enough to stand on its own.

In the twentieth century the picture became more complex. Early on in the century, co-operative movements were growing quickly all around the world, and for a brief time it was possible for theorists to put forward a vision of a world economy based on co-operative principles. In Russia before the revolution, and in Western Europe during the 1920s, the rapid growth of consumer co ops led to some excited speculation about how co-operators might eventually 'buy out' capitalism and replace it with a humane and just economic system. Then, in one country after another communist and fascist governments took over or destroyed the movement. After the second world war, consumer co-ops were reborn and played an important part in the revival of civil society in countries destroyed by war. Yet in most countries - Japan being one notable exception - this form of co-operative began a long and painful decline both as a social movement and as a business sector. Worker co-ops, similarly, carried the hope of a better future in which people controlled their own fate, but apart from successful pockets such as Mondragon, Valencia and Northern Italy, most worker co-operative movements failed to become more than a minority sector in a sea of investor-owned businesses. Again and again, they illustrated difficulties that critics had pointed out at the end of the nineteenth century: the inability to insulate management from the immediate interests of workers; inability to raise capital to keep up with technological change; and a tendency for successful co-ops to dissolve into conventional firms.

Throughout the century, one form was consistently successful - the agricultural co-operative. Yet often the success of farmers was as much due to their being protected by government marketing boards and guaranteed prices as by their own efforts. Towards the end of the century, deregulation of the industry in some countries meant new alliances being made with investors who brought much needed capital but threatened to undermine farmer control of the business. Another successful form of co-operative was in financial services. Often known as 'mutuals', and tracing their origins back to a separate but similar tradition of self-help, co-operatives providing

savings and credit, home loans, mutual insurance and pensions were outstandingly successful. Yet towards the end of the century, they came under attack in many countries from people wanting to 'demutualise' them and steal their assets. Apart from the very successful credit union sector, these financial mutuals were vulnerable to attack because their managers had neglected their members and had almost forgotten what mutuality meant.

Towards the end of the century, with the collapse of communism in the Soviet Union, central and eastern Europe, a large and diverse co-operative sector became exposed to the processes of privatisation and a rapid move towards free markets. Many co-ops went out of business because they were not financially sound, some had their assets stripped by their managers; while others were sold off by governments regardless of the rights of their members. Weakened by association with the discredited old communist regimes, they had to struggle against ignorance, prejudice, and restrictive laws, while having to cope with the pressures of a too-quick exposure to the global market system. They adapted to survive as a sector, but still had a long way to go before they could be called a movement.

In developing countries, the century started well, with sympathetic colonial regimes adapting co-operative principles and practices ·from the developed world to help people develop their own economies. However, the principle of voluntariness was overlooked, and more often than not co-operatives became institutionalised as quasi-governmental agencies, subject to heavy and continuing regulation. The resulting bureaucracy was not questioned by the nationalist governments that followed decolonisation, rather it was taken over and used for their purposes, becoming a means of rewarding political supporters and of delivering 'top-down' economic policies that made co-ops unpopular with their so-called 'members'. Towards the end of the century, under pressure from the process of privatisation and structural adjustment, co-operatives were, in the words of Rousseau, 'forced to be free': Simultaneously, they lost government protection and began to feel the full blast of market forces, and many did not survive. Those that did survive became stronger economically, but in some African countries the process has only just begun, and we can expect a stronger but much smaller co-operative sector to emerge.

This, very broadly, is the legacy of the last century with which we begin the next. No-one could have predicted what happened towards the end of the 20th century - the end of the cold war and the unexpected freeing of co-operatives in many countries from the dead hand of government control, and then the rush towards

conversion of co-ops and mutuals into investor-owned businesses. It seems that co-operators, having been caught for so long between the two great forces of communism and capitalism, are now free to be themselves again, but are uncertain what this means.

Co-operatives in the new century

At the beginning of the new century, I am not going to make too many predictions about the future. In any case, we are like surfers who are riding waves that are still going strong from the last century - the trends I have been describing will continue to play themselves out for decades to come. Yet something quite new is also happening; a new wave is building up that we are going to have to learn to ride well into the future. The world is undergoing an economic revolution that is as radical as the industrial revolution of 200 years ago. We are heading towards a post-industrial society that has these features:

1. The provision of services, particularly information, is becoming at least as important as manufacturing.
2. New technology is compressing time and space so that a global society is emerging.
3. Capital has begun to flow ceaselessly from country to country in search of more profitable investment.
4. Nation states are being left behind by a new centre of power, the global city.

All of these are new processes that have one certain consequence - the creation of new types of inequality. All over the world, people are being detached from the centres of economic power. Those who are in employment are forced to accept lower wages and job insecurity. A growing minority in the rich countries, and a majority in the poor countries, are becoming 'surplus to requirements', surviving, where they can, on unemployment benefits, and where they cannot on the informal sector. Nor is there any way of turning the clock back. Urbanisation, environmental degradation, the neglect of rural economies and reorganisation of farming for export markets, all conspire to make it impossible to rely on traditional ways of life based on subsistence. The new poor are becoming more dependent on markets than ever, and yet are less and less able to defend themselves and to have anything to sell within those markets.

We have, of course, been here before. What I am describing is the sort of desperate situation facing the Rochdale Pioneers in the

1840s, when economic forces way beyond their control turned the British textile industry upside down and threw a whole class of people - the weavers - out of work and into poverty. The need for economic and social development through co-operatives is as great as it ever was, but it is going to be even more difficult to achieve. We have to do some hard thinking about just what the co-operative form can offer in the new global society that is emerging.

Why not make a few predictions? It will be interesting to look back in twenty years, if I am still here, and see how wrong I was! First, let us consider the developed countries. There will be a continued decline in the size of the consumer co-operative sector, partly through loss of business, partly through demutualisation - members deciding to accept an offer from an 'asset stripper' to sell out. Those co-ops that survive will be led by the example of the Japanese movement to turn into genuine member-controlled businesses, in which the co-operative difference becomes an economic asset. Helped by alliances with other social movements - environmentalists, the women's movement, movements for fair trade - they will link up directly with producer co-ops (tanners, fishers, artisan co-ops) to provide products for educated, mainly middle-class customer-members concerned with their own health and the ethics of fair trade. This will enable them to keep open shops in rural areas, where they will retain a strong presence.

Worker co-ops will become more significant, but only in cities and regions where there are strong development and support networks. The strongest growth areas will be in the provision of public services on behalf of local government, and care services for children and the elderly. They will be modelled loosely on the Mondragon system: a complex control architecture will insulate management from short-term pressures from worker members; capital will be raised through linking up with local co-operative credit systems; and apex organisations will provide sophisticated business appraisal, planning and auditing services. In some countries, the sector will be strengthened by joint strategies with groups of employees who have part-shares in investor-owned businesses.

Agricultural co-ops will have to adapt to gradual loss of government supports and entry into the global market. They will do this by adding value to members' produce, taking their businesses further down the food production chain and becoming agri-food businesses. To secure the capital needed for this, they will go in one of three directions. Some will turn their co-operative into a limited company, float on a stock exchange and allow outside investors in. Large tanners will profit from this, but family tanners will be squeezed out and become merely small investors. Others

will enter into joint business with investor-owned firms and, while keeping their original co-operative free of outside control, will nevertheless lose some influence to the new hybrid organisation. Others will follow the 'new generation co-op' model and raise the needed capital from their members, linking supply of capital directly to delivery rights for produce, More controversially, they will also reward farmers in proportion to shares based on delivery rights, and will let them sell these shares at market value. What some co-operators see as a compromise of basic co-operative principles, others will come to see as the only viable way to protect farm incomes and hard-pressed rural economies.

Co-ops and mutuals in the financial services industry will continue to be under intense pressure from 'carpetbaggers' hoping to persuade their members to convert to a company in order to share short-term financial gains. Those that survive will capitalise on the 'co-operative advantage', arguing that because they do not have a separate group of shareholders they can afford to provide better value to their members. Sadly, in countries where there is no legal protection for mutuality, not many will survive. However, credit unions will prosper. They will remain relatively small and so unattractive to the 'carpetbaggers', but will enter into strategic alliances with larger banks to provide joint services, particularly in areas from which the banks have withdrawn.

The biggest growth area will be in health, social services and public utility co-ops that will gradually fill the gap left by the withdrawal of the state from public and social services. However, their growth will depend on being able to develop strong partnerships with local government. In this they will be helped by their ability (in contrast to for-profit companies and non-profits) to give voice to a variety of 'stakeholders'. In this sector, and probably also in others; there will be a new emphasis on bringing all the stakeholders into the governance structure of the co-operative; users, workers, suppliers, the wider community, and so on. Co-ops will either be redesigned to incorporate at least the two key groups - producers and consumers - or they will remain under one-stakeholder ownership but consult with and report regularly to all their stakeholders. At the end of the 19th Century, the co-operative movement was divided into advocates of worker and consumer co-operation. In the 21st century, there will be no excuse for ignoring the needs and views of one of the key stakeholders at the expense of the other.

More generally, the co-operative sector will look like this. There will be four main types of co-op:

1. Large, national, or even transnational mutuals, using their mutual

nature as a marketing strategy to differentiate themselves from their competitors. They will be democratic but only just, with low levels of member participation, and with direction being given by value-driven managers rather than by grassroots supporters.

2. Small, locally based co-ops, part of a network of businesses that are owned and controlled at a regional level, as opposed to 'footloose' global capital. Here, the co-operatives' strength will be drawn from a wider social movement based on regional difference and in clear opposition to global society.

3. Co-ops formed not by individuals but by small and medium enterprises, also as part of a local economy to meet local needs, or as niche markets in the global economy, or as sub-contractors to larger firms. Their strength will come from the need to obtain the benefits of large size in a market dominated by transnationals.

4. Virtual co-ops that have few employees or fixed assets, but that use the internet to develop new ways of co-operating. Some of these will be set up by conventional co-operatives in order to work together, using the technology to help the free flow of information, mutual learning, and inter co-operative trade.

More speculatively, there may be another entirely new type of co-op, based on the need for stakeholders in conventional firms to gain some control over decision-making. Examples will include football supporters' trusts, worker-owners, ethical investors, and environmentalists. Consumers of privatised utility companies that provide essentials such as water, electricity and gas will insist on having a stake in such companies.

In transitional countries, newly emerging co-operative sectors will develop quickly - partly because towards the end of the last century governments put in place clear co-operative laws, partly because there is no real alternative to co-ops, especially in the agricultural sector. They will not be new types of co-ops, but will be much like those that were successful in Western Europe in the last century. They will be conventional worker, consumer, agricultural and credit co-ops that help to create regional markets and opportunities for export, that are co-ordinated by federal bodies, and that concentrate on developing basic business skills.

In developing countries, there will be this same emphasis on turning existing co-ops into real, market-based businesses, but there will also be an explosive growth in informal co-ops, using traditional mutual aid methods, and less bureaucratic and less

regulated than the official co-operative sector. Finally, in the urban areas, co-ops will be formed by the joint action of trade unions and co-operative development agencies in the informal economy sector. Their potential for growing to become a social movement is huge, particularly when focused on the needs and aspirations of women.

Towards a co-operative science

In the coming century co-operative developers will be helped by the fact that we now know enough about how to do co-operative development. We have enough theoretical and practical knowledge to avoid the mistakes of the past and to set up real, lasting co-operative sectors. The elements are:

1. A participatory development technique that encourages potential co-op members to define their own needs, that involves them from the start, that does not swamp them with support but provides it at each stage on condition that the members take responsibility, and so on.

2. A sympathetic environment for co-operative development provided by governments, but with support limited to the providing of a 'level playing field' on which co-ops are able to compete with other types of organisation.

3. Apex organisations that emerge out of the needs of primary societies, and are sustained by them. Where government is involved, it should be providing the kinds of inputs that do not distort the co-operative as a business, such as training; human resource development and good legislation.

4. A strategy based on the 'co-operative advantage'. To survive, co-operatives have to pay attention to the needs of their members, differentiate themselves in the market, and turn their membership base into a positive advantage. They have to see the two aspects of the organisation - the member association and the business - as being complementary rather than antagonistic. They have to foster value-based management, an educated board, clear rules ensuring good governance, and a set of strategies that utilises the strengths of members in all their aspects: as 'users' (consumers or workers or both), investors of capital, and- as ultimate controllers of the business.

All of these elements in a successful co-operative strategy require a

continual balancing act so that co-ops do not deform into becoming just like their competitors, or discourage new and younger members so that they become an 'oligarchy', or simply fail through the weakness and occasional corruptness of human nature.

After nearly two centuries of learning, we now have a co-operative science. We need to improve it, of course. For instance, we need to know more about what makes people participate; a project I am running at Stirling University is testing a theoretical model of participation. We need to know where the co-operative 'advantage' lies; a recently completed UK Society for Co-operative Studies project is doing this for consumer co-ops in the UK. We need to know how to intervene in the informal sector; the International Labour Office is hoping to sponsor a project to enable trade unions and co-operative federations jointly to develop in the informal sector in developing countries. The current ICA project to gather good quality statistics on co-operative sectors is another good example. The Japanese co-operative sector has a good record in researching into the changing needs of their members, into the views of women members, young people, and so on. And yet in the coming century, an information age when knowledge really is power, we will have to put far more effort into research than we do at present, and we will have to make sure we use it.

Are co-operative principles still relevant?

Will co-operative principles still be relevant in the new century, or will they get in the way of progress? We made a good start towards the end of the last century when the ICA revised the principles and established a co-operative statement of identity. Here are just a few more predictions.

In the coming century, we will have to defend the principle of ownership and control by members against the compelling need to raise outside capital. Ways will be found to persuade members to invest more, and to mobilise people's savings for local economic development through co-operative banks. Allowing outside capital into a co-op will be recognised as a bad idea, and so new jointly-owned businesses will be preferred. However, there will be a growing number of ethical investors looking for an opportunity to invest money where it will do no harm, and co-ops that have an ethical policy will be able to offer them investment opportunities in the form of preference shares. If they are moving towards a multi-stakeholder design, co-ops may well allocate some votes to ethical investors.

There will be an opposite problem in co-ops and mutuals that have become so successful that their value on the market if they

'floated' would be much higher than it is to their current members. In order to avoid demutualisation, they will find ways of rewarding members with bonus or preference shares, that will favour individual rather than collective ownership of reserves. The last century saw the demise of the famous consumer co-operative 'dividend on purchases\ The new century will see some sophisticated ways of rewarding members for their loyalty, including individual share accounts and access to various kinds of education or care services.

While in developing countries there will be a good deal of institution building, in the developed world there will be a move away from formal, all-purpose co-operative federations towards more flexible forms of networking. These networks will focus on single issues such as joint buying, joint product development or political lobbying. Helped by the internet, they will overcome time and space and enable co-ops to do something they were not very good at in the last century: international co-operation. More often than not they will include different types of co-op in the same network. When new formal institutions are set up, they are likely to be located at the regional level within a nation state or at the transnational level of a trading bloc such as the EU or ASEAN; the nation state will be less and less relevant. Nor will the new institutions be bureaucratic: using the internet they will be 'virtual federations'. They will emphasise inter-co-operative trading at least as much as democratic representation.

The internet will also enable a rethink of what we mean by co-operative education. There may be some co-operative colleges in the new century, but not many people will be able to afford to attend them for years in order to be educated. Co-operative studies will be taught through distance learning, email groups, specialist training-provider co-operatives, and through extended on-the-job training for managers and board members. Co-operation between co-ops will be practiced in a more focused way than before, with networks at the level of the region within countries and the world region beyond the nation state. Co-ops will become used to the idea of setting aside a proportion of their surpluses for co-operative development at these two distinct levels.

Conclusion

An honest review of the last two centuries of co-operative history leads us to take a realistic view; co-operatives are not the answer to the world's problems, but they are one part of the answer. Looking into the future, we can see how co-operatives will continue to be part of the answer. Let me put it this way. Imagine a world without co-operatives. Then imagine the millions of people who are

suffering from poverty, and all the uncertainty that living in a global market economy brings. Imagine them realising, as so many have done before them, that to take control over their own lives they need to work together. What form of organisation would they create? It would have to be some form of co-operative. In other words, if there were no such thing as a co-operative, it would have to be invented. Yet it has already been invented and does not need to be reinvented. We who are meeting here today to celebrate International Co-operators Day are the proud inheritors of a long tradition of people-centred economic development. We have a lot of knowledge that has come to us the hard way, through experience of what works and does not work. We are part of a movement that has evolved out of the very different conditions of early industrial society and is still evolving. Provided we draw lessons from our history, it does not matter that along the way we have made mistakes and sometimes failed; failure becomes part of the evolutionary learning process. In the new century, we have to put our knowledge of the co-operative form to work, to test its relevance, and to develop it to meet the new needs of ordinary people living in a post-industrial, information-based, and global society. Our parents and grandparents in the co-operative family have handed on to us a very important task. It is an exciting opportunity but also a serious responsibility because nobody else can do it.

This speech was given on 6 July 2000, International Co-operators' Day in Japan.