Workers' Participation in Co-operatives

Problems of Co-operative Production

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During the last few years a good deal of publicity has been given to the efforts of workers employed by companies threatened by closure to take them over and run them as workers' Co-operatives. With the help of finance from the Government, workers' Co-operatives were formed at the premises of the Triumph Engineering Company at Meriden, near Coventry; of I.P.D. at Kirkby, near Liverpool; and of the Scottish Daily Express in Glasgow. Production of radiators, storage heaters and soft drinks was continued without interruption at Kirkby by the Co-operative, Kirkby Manufacturing and Engineering, from the beginning of 1975, production of motor cycles was resumed at Meriden from March 1975 and the Scottish Daily News was published by the Co-operative, Scottish News Enterprises, for six months from May 1975.

The new Workers' Co-operatives

These three enterprises were generally described as workers' Co-operatives; but all three were registered as companies and some Co-operators have questioned whether they should be regarded as Co-operatives. Scottish News Enterprises could not really be regarded as a Co-operative since it issued shares carrying an unlimited return and votes in proportion to shareholding to the general public; but it would probably have developed into a Co-operative if it had survived and its promoters clearly intended that it should. It was compelled to seek some money from the general public in addition to share capital provided by the workers in order to get the loan it needed from the Government.

The Meriden motor cycle Co-operative is unconventional in that its shares are held by a trust instead of by the workers but basic Co-operative principles appear to be observed. Kirkby Manufacturing and Engineering is more like a conventional co-operative society but unusual in that shareholdings are limited to one per member. Most Co-operatives need such share capital as can be provided by members up to the legal maximum.

Some British agricultural Co-operatives are registered in law as companies but nevertheless operate as Co-operatives and are treated as Co-operatives for tax purposes. The numerous Co-operatives in Denmark, Norway and New Zealand have to manage without Co-operative law and many of them are companies in law but operate as Co-operatives. The Rules of the International Co-operative Alliance say that the legal form of an enterprise is not of decisive importance in determining whether it is or is not a Co-operative; and that what does matter is whether Co-operative principles are observed. As they appear to be observed at Meriden and Kirkby it is, perhaps, reasonable for their members and journalists to describe them as workers' Co-operatives.

It remains to be seen how they will fare in 1976. It is not altogether surprising that the Scottish Daily News failed for it is a difficult enough thing at any time to launch a new daily newspaper and particularly so at a time of trade recession and roaring inflation with inadequate capital. The Observer remarked in an assessment of the enterprise that "the workers' Co-operative was the most successful aspect of the whole venture". The workers' Co-operatives at Meriden and Kirkby were launched under circumstances of exceptional difficulty where private enterprise had failed; but the remarkable thing is not so much that these two experiments should face formidable problems but that so few more clearly viable enterprises should be launched on or converted to a Co-operative basis.

Why So Few Productive Societies?

In 1974 consumers' Co-operatives in Britain had sales more than four hundred times as great as those of productive societies of which there were only eighteen affiliated to the Co-operative Union and of the latter only one had been established since the second world war. A considerable number of productive societies were formed in Britain in the second half of the nineteenth century, but many of them failed fairly quickly, just as many private ventures failed. The most spectacular failure was that of the Ouseburn Engineering Works near Newcastle which failed just one hundred years ago as a result of mismanagement by a distinguished Co-operator, Dr. J. H. Rutherford, who was a doctor of medicine as well as a Congregationalist Minister but who was not very experienced in marine engineering. This failure and that of the Scottish Co-operative Ironworks at about the same time seems to have persuaded many Co-operators that it was best to concentrate on Co-operative stores in spite of the resolutions in favour of promoting workers' Co-operatives repeatedly approved at Co-operative Congresses.

Co-operative production has been more successful in some other countries. There are, for example, more than 500 productive societies in France with the largest employing more than 4,000 people. There are 2,400 in Poland, 3,000 in Italy and 20,000 in India; but the figures for total membership and sales of productive societies are less than 2% of those for all Co-operatives affiliated to the ICA; and their production is a much smaller fraction of total production by companies, individual producers and partnerships and State and other enterprises. Why is the capitalist form of production so widely preferred to the Co-operative form in both industrialised and developing countries in spite of the conflict inherent in the capitalist form and the community of interest established by the Co-operative form?

The Economists

This is a question in which Co-operators, socialists, economists and others have long taken an interest. Co-operative production was the aim of Robert Owen at New Lanark - but few followed his example and subsequent community experiments were not very successful. Co-operative production was the original objective of the Rochdale Pioneers who only opened their store as a means to an end; but it has been consumer, agricultural, credit and other co-operatives that have grown and prospered rather than the productive societies.

A number of distinguished economists - including Alfred Marshall, J.M. Keynes, D.H. Robertson, Lionel Robbins, James Meade and Jaroslav Vanek - have taken a sympathetic interest in Co-operative production and most of them seem to have concluded with regret that they are unlikely to make the rapid progress envisaged by John Stuart Mill in The Principles of Political Economy in 1848 and by Louis Blanc at about the same time. Economists and co-operative theorists are agreed that productive societies are more difficult to establish and sustain than most other kinds of co-operatives. Some comment on the problems they face has been superficial and biased like some of that of Miss Beatrice Potter, later Mrs. Sidney Webb; and some have argued that marketing and advertising, for example, present greater problems to Co-operatives than to companies. The main problems, however, appear to be four: firstly the inherent difficulty of ensuring good management when the Board of Directors or Committee of Management of an enterprise has been elected by the equal votes of those working in it; secondly the problem of providing sufficient initial risk capital from people of limited resources when the shares of an enterprise carry a limited return and one vote irrespective of the number of shares held; thirdly the problem of ensuring that a sufficient proportion of earnings are "ploughed back" and invested instead of being distributed to members; and fourthly the problem of ensuring that the co-operative grows and prospers and responds to market opportunities.

Co-operative Management

The problem of combining co-operative democracy with good management arises in all kinds of co-operatives and was discussed, for example, at the 1969 and 1972 ICA Congresses. The C.P.F. pamphlet Co-operative Democracy in Industry draws attention to the importance of drawing a clear distinction between the policy making functions of an elected board and the day to day management responsibilities of full time professional managers; and while it may sometimes be difficult to make democracy effective in a large consumers' co-operative it is argued on the other hand that management in a workers' co-operative tends to lack sufficient authority to be effective. It may, therefore, often be useful for workers' Co-operatives to give their chief executives a service contract - not to provide for excessive compensation in the event of dismissal but to give him sufficient authority for efficient management. Such service contracts can improve the credit and borrowing capacity of workers' Co-operatives if suppliers and bankers have confidence in a particular individual. Reasonable security for management of proved capacity through the wise use of service contracts and the election of people with relevant experience to boards should prevent good management being a major problem in workers' Co-operatives in spite of the fears of some economists.

Good management needs to be combined with effective control by worker members over policy decisions and this is likely to be more effective if adequate allocations are made for education and for the supply to worker members of full information on major issues facing the enterprise. Democratic control can also be made more effective in a variety of ways - as through trade union machinery, through works councils and through the organisation of autonomous work groups.

Initial Capital

Raising sufficient initial risk capital is a problem for all kinds of Co-operatives; but perhaps particularly for workers' Co-operatives since they tend to be more capital intensive than agricultural and consumers' Co-operatives; the capital required per member and the risks are both likely to be greater. Moreover the resources of the members of a workers' Co-operative may be more limited than those of, for example, an agricultural Co-operative. Relatively few people with an idea to develop seem willing to risk their savings for a return of 7½% or so and one vote irrespective of the number of shares held; most form a partnership or a company instead. Perhaps more people would be encouraged to choose the Co-operative form if Co-operative law made provision for a "pre-Co-operative" stage with an unlimited return allowed on initial risk capital for a limited period such as five years and thereafter a limited return based on asset values at the end of the initial period. This might sometimes bring those providing initial risk capital a substantial return; but the Co-operative principle is not that the return paid on capital should be low but that it should be limited.

A number of companies, such as the Scott Bader Commonwealth and the John Lewis Partnership, have accumulated substantial capital as conventional companies and later converted to "common ownership" with constitutions similar to those of workers' Co-operatives but of a rather more paternalistic character. Both these companies were mentioned in the discussion on Co-operative production in recent reports on industrial democracy from the TUC and from the International Confederation of Free Trade Unions. Some other "common ownership" companies are associated with the Scott Bader Commonwealth in the Industrial Common Ownership Movement which hopes to help to promote legislation which will facilitate the conversion of conventional companies to common ownership. It is surprising that some advocates of common ownership favour common ownership enterprises with only loan capital as Co-operative experience has been that some share capital is essential for enterprises of this kind. If all the capital of an enterprise is loan capital it is likely to have an adverse effect on trade credit and borrowing capacity and therefore on its prospects - unless some of the loan capital is a special kind of subordinate loan similar to a co-operative share.

Co-operative productive societies need to maintain an adequate balance between loan capital and own capital - including share capital and reserves; and could be helped to do this if Co-operative law specifically authorised the issue of non-voting preference shares - as in some other countries. The formation of new Co-operative productive societies would be greatly helped by the establishment of the Co-operative Development Agency promised in the Labour Party's October 1974 election manifesto and it might even provide some share as well as loan capital. But if productive societies are to be effectively controlled by their worker members it is important that they should provide some of the share capital and that any outside shares - such as any held by retired workers - should be non-voting.

Self Financing

It is just as important for workers' Co-operatives to plough back a sufficient proportion of earnings as for them to start with sufficient initial risk capital. Co-operatives usually plough back a smaller proportion of earnings than companies, partly because company dividends in a few hands may be liable to a high marginal rate of tax while Co-operatives may reduce corporation tax liability by distribution. If they are to be encouraged to plough back a higher proportion of earnings it is important that the members of workers' Co-operatives should be able to participate, through share issues in proportion to work contributed, in the growth of the assets - something that does not often happen with common ownership companies without a share capital or, for example, in Yugoslavia. But if Co-operative law allows the distribution of the residual assets of a Co-operative to shareholders in proportion to shareholdings this may lead to the winding up and sale of the assets of a successful Co-operative for the sake of capital gains: as with Wigston Co-operative Hosiers in Britain and Olympia Veneer in the USA.

Some economists, such as Professor Jaroslav Vanek, have argued that workers' Co-operatives should not seek to accumulate capital out of earnings but should rely wholly on an outside bank or corporation for finance. Mr. Vanek has argued* that self-financing out of earnings can lead in workers' Co-operatives to a decline in membership and in investment and ultimately to extinction; and that workers' Co-operatives are less likely than conventional companies to respond to price increases with higher production. Professor J.E. Meade and other economists have also done important work on workers' Co-operatives and on the problems of the Yugoslav type of economy; and there has also been considerable discussions of these problems in the Federal Republic of Germany.

It is, of course, desirable that any Co-operative organisation should have financial support from an outside organisation such as that provided in some countries by the Banks for Co-operatives to agricultural co-operatives,

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* SELF MANAGEMENT: Economic Liberation of Man
Penguin 1975

by the Banque Cooperative in France to the French productive societies and by the Caja Laboral Popular to the successful Mondragon industrial Co-operatives in the Basque provinces of Spain. Perhaps some day a Co-operative Development Agency will provide outside finance for workers' Co-operatives in Britain in a similar way; but historically co-operators have considered it important that Co-operatives should provide part of the finance they need for expansion from their own earnings. If there are important economic arguments against this they should be well publicised in the Co-operative Movement.

It is rather difficult to see just why some Co-operators should be exempt from the economic laws, noted by Adam Smith and others, about an increase in demand leading to an increase in price and stimulating an increase in supply. It is an undeniable fact that Co-operative productive societies have made very small progress over the last hundred years in competition with capitalist companies; but should this slow progress be attributed mainly to the policy of financing expansion mainly out of earnings which has served companies so well? Might it not be as reasonable to attribute it to some extent to the difficulty Co-operatives have in raising initial risk capital and to their tendency to plough back a lower proportion of their earnings than companies?

Towards a Co-operative Economy?

These are very important questions in that a number of people consider that the organisation of production on a Co-operative basis could make an important contribution to solving Britain's economic problems. For example Mr. Peter Jay, Economic Editor of the *Times*, in a lecture at the beginning of December reported in the *Times* on December 5th, argued that a shift towards a more Co-operative form of ownership by changing company law so as to vest the ownership and ultimate control of enterprises in the people working in them could help to bring inflation under control without massive unemployment. The Co-operative Party argued in the report Industrial Democracy and Social Ownership approved at its 1975 Conference that the extension of social ownership by a wider application of Co-operative principles could make an important contribution to improving industrial relations and reducing inflationary pressures by developing a fairer policy on incomes; and one of the basic purposes of the Co-operative Party is to ensure that the principles of Co-operation are widely used in building the new society.

In March last year Dr. Jeremy Bray moved an amendment to the Industry Bill in which he proposed that the National Enterprise Board should have the power to convert any company employing more than 200 people into a workers' Co-operative; and a resolution from the Royal Arsenal Co-operative Society for the 1976 Co-operative Party Conference calls for the promotion of workers' Co-operatives and a wider application of Co-operative principles. A move towards an Owenite or Co-operative conception of socialism would probably help Labour electorally. It would be something essentially different from profit sharing and capital sharing schemes and would, indeed, be incompatible with them; but if a move is to be made towards a Co-operative economy it is important that advocates of such a move should be clear about what certain economic theorists are saying about workers' Co-operatives in general - as distinct from what others have said about certain experiments in workers' Co-operatives.

The Need for further Study

It is claimed that they tend to act in a perverse way, to respond to a price increase by contraction instead of by expansion; but the workers' Co-operative of economic theory differs from the workers' Co-operatives that inhabit the real world and some of the latter have been significantly successful. It is argued by some economists that it is important that the formation of new workers' Co-operatives should be assisted by an agency like the Co-operative Development Agency so as to help production respond to market changes. It may be that the arguments of economists about the possible behaviour of workers' Co-operatives provide one of the main reasons for the Government's strange delay in bringing in legislation to establish the Agency or even publish a green paper.

If workers' Co-operatives were too dependent upon such an agency for finance, democratic control by the members might be less effective than it would otherwise be. The problems of workers' Co-operatives clearly have an important bearing on the problem of extending industrial democracy now being studied by the Committee on Industrial Democracy. Perhaps experiments with new forms of common ownership similar to traditional workers' Co-operatives should be encouraged and also the conversion of established companies to various forms of common ownership, as by changes in corporation tax and capital transfers tax and appropriate arrangements with regard to the proposed wealth tax. Perhaps the Co-operative Development Agency should provide finance for common ownership companies and not only for enterprises registered under the Industrial and Provident Societies Acts. The Industrial Common Ownership Bill that is to be introduced could lead to developments of considerable interest to Co-operators and to all interested in workers' Co-operatives; and the Society for Co-operative Studies could itself make an important contribution to the debate on these matters. If Co-operative production is to make a contribution to the solution of the economic problems facing the country the basic reasons for the limited progress of Co-operative productive societies over the last hundred years must be thoroughly explored.