Future Forms of British Co-operation

CO-OPERATIVE CREDIT

The Case for Credit Unions

by

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The history of credit trading in the British Co-operative Movement is marked by fluctuating policies based on moralistic or pragmatic considerations. It was a fundamental rule of the Rochdale Pioneers that all trade with members should be conducted for cash. The granting of credit, particularly for the sale of foodstuffs, was one of the principal causes of failure of the pre-Rochdale societies, and when the Pioneers set out to establish a retail business with slender financial resources, for the purpose of contributing to the moral and economic welfare of the members, they were obliged to refuse credit.

In the harsh economic environment of the mid-nineteenth century it was usual for shopkeepers to assist their customers with credit in periods of unemployment and distress, but as a recompense they frequently exacted a usurious return, with the result that the system established a vicious circle that was sometimes little better than economic slavery. Tradesmen's debts were, for the poor, "a dreaded aspect of unemployment and sickness, fraught with grave dangers and leading to endless entanglements."

The co-operative attitude to credit trading has tended to be emotional rather than rational. A quotation from a pamphlet by a CWS director published just before the First World War typifies this attitude:-

> "I question whether even our drinking customs have desolated more homes than have been ruined by the credit system ... Credit is a curse to the individual, a bane to a society, a stumbling block to our Movement, and I am of the opinion that we commit a crime against our principles if we do not use every effort to eradicate it from our midst."

Nevertheless, the Co-operative Union's Anti-Credit Committee found in 1901 that 72% of all societies were giving credit in one form or another. The gulf between precept and practice was so wide that the Committee was disbanded before the First World War. If official Co-operative policy was not prepared to admit that it is a basic tenet of a free society that people themselves must be the judge of what contributes to their material welfare, the ordinary members made their own judgements and sought credit facilities elsewhere.

Co-operative Mutuality Clubs

In the early 1900s some of the members of the former Edmonton Co-operative Society in London introduced provident clubs in the guilds. The secretary of the society resented this intrusion and established an official "mutuality club" based on the cash principle, which was, however, unsuccessful. In the 1920s it was found that many members of the London Co-operative Society were obtaining their drapery and clothing from a credit club whose collectors called regularly for payments and supplied them with the goods they required. Many of the women claimed that the saving of twenty or thirty shillings in the house would have led their husbands into temptation, and that they either obtained goods by this means or they remained beyond their reach. In 1923 the London Society introduced the Mutuality Club system, after having altered its rules to permit it. The results were astonishing. Trade in the dry goods departments soared, and a trading loss was soon converted into a substantial surplus. The so-called Mutuality Club system spread throughout the Co-operative Movement, and has been an important element of the credit trade until recent times. The name is misleading because there was nothing mutual about this credit, nor were there any clubs involved.

The dangers of offering unsecured credit for perishable foodstuffs to consumers living near the subsistence level are obvious, but as standards of living improved, and a range of durable consumer goods became available in increasing quantities from the third quarter of the 19th century, the case for new kinds of credit facilities became apparent. A form of credit which emerged about that time, and is still among the most widely used, is hire-purchase. This developed in Paris about the 1800s, spread to New York, but was hardly used in Britain until the 1840s when the well-to-do used it to buy pianos. In the 1860s the new Singer sewing machines were sold by this method. When hire-purchase assumed its modern form, as an agreement to hire with an option to purchase, about 1895, it is believed that there were already over a million agreements in force. It is unlikely that hire-purchase was used to any considerable extent in the Co-operative Movement before the First World War, if for no other reason than the smallness of the non-food trade.

Crowther Committee on Consumer Credit

If the Co-operative Movement failed to approach this matter in a rational and analytical way, it was left to the Crowther Committee on Consumer Credit, which reported in March 1971, to find a *raison d'être*, thus:

"Consumer credit, properly used, may justifiably be said to facilitate the household budgetary problems of the poorer members of the community. For many low income households the border line between success and disaster in planning expenditure is extremely narrow, and to be as little as ten shillings on the wrong side may have serious consequences. The existence of check trading and mail order aids the budgeting of such households, if only because the discipline of paying, say, five shillings a week to an external creditor is more compelling than saving the same five shillings a week for an eventual cash purchase. The temptation for households working on extremely narrow budget margins to dip into the sums set aside for purchases of clothing and furnishings is such that the compelling necessity to balance the weekly budget may render it virtually impossible to make such important purchases in the absence of the need to pay a certain given sum to the agent of the check trader or mail order house."

The broad conclusion of the Crowther Committee was that on balance consumer credit is beneficial, since it makes a useful contribution to the living standards and the economic and social wellbeing of the majority of the British people. According to a survey undertaken at that time, 20% of the expenditure on clothing and footwear; 45% on motor cars; 41% on furniture and floor coverings; and 42% on radio and electrical goods; was financed by credit.

Within the British Co-operative Movement, the main purpose of providing credit has been to facilitate the purchase of goods from co-operative stores, but the experience in other countries has been quite different. In Germany, for example, two contemporaries of the 19th century faced the problems of credit in different environments - urban and rural. Both began with individual efforts to relieve the distress in their particular districts, and both ended with the conviction that improvement was possible only when it depended upon and came from the people themselves. Hermann Schulze-Delitzsch was concerned with the urban independent craftsman whose lack of capital prevented him from enjoying the full fruits of his labour. Friedrich Wilhelm Raiffeisen was concerned with the peasants who were unable to obtain on reasonable terms the credit which is so essential to those who have to depend upon the slow and unpredictable processes of nature for their livelihood.

Schulze-Delitzsch and Raiffeisen

Both German pioneers fostered systems based on self-help rather than philanthropy. The Raiffeisen plan was, however, more communal and simple in character, based on credit societies the membership of which was restricted to a particular village or rural parish, because it was a fundamental principle that the members should be known to each other (the "common bond" principle). The Schulze-Delitzsch 'volksbanken' were intended for skilled craftsmen, but also attracted shopkeepers, small manufacturers and professional men, so that the membership was very much more widespread in this case. Under both systems credit was obtained on the collective responsibility of the members of the society, and the money re-loaned to individual members. Schulze-Delitzsch insisted on borrowing combined with thrift, and members were required to contribute share capital which required an effort on their part to save. A unique element of the Raiffeisen system was the tight control over the grant and use of loans. A member applying for credit was required to state the purpose for which it was sought, and the committee then considered whether such a loan was justified in the light of their knowledge of the applicant and the project he had in mind. When a loan was granted, guarantors were required who would be responsible for supervising its use and for giving any assistance which might be necessary to enable the member to use it effectively. Only in a small community could such a system operate successfully, and the mutual supervision did much to raise the standard of farming. The Raiffeisen system of credit also led naturally to co-operative buying on behalf of the members of the society. As many loans were required for the purchase of seeds, fertilisers and machinery, it was soon realised that valuable benefits could be secured if bulk supplies were obtained on wholesale terms and loans made in kind rather than cash.

Credit Union Movement

The Raiffeisen movement spread to Austria, the Netherlands and other European countries, and then to America. The Credit Union movement in Canada and the USA was pioneered chiefly by Alphonse Desjardins, Edward Filene and Roy Bergengren, who had studied the principles of Raiffeisen in other countries. In 1972 there were 23,179 Credit Unions in the USA and 4,214 in Canada, with a membership of 26 million and 6.5 million respectively. The Credit Union National Association (CUNA) has promoted the movement throughout Latin America and the Caribbean. Since the end of the Second World War credit unions have been firmly established in Australia and New Zealand. They were also established in the Republic of Ireland in 1958 and in Northern Ireland in 1961. By the end of 1976 there were 360 unions in the former with 280,000 members and approximately £50 million in assets; and 94 unions in Northern Ireland with 80,000 members and total assets approaching £10 million. In 1966 the Dail passed the Credit Union Act, which regulates the operation of unions in the Republic, and in 1969 their operation in Northern Ireland was regulated by an amendment to the Industrial and Provident Societies Act. In both countries statutory regulation has stimulated growth.

Although it may appear that there are plenty of credit facilities open to people in the UK, the options are limited for many of them, especially those without bank accounts. Moreover, the available credit tends to be costly and is often tied to the purchase of goods in particular shops. There is a need for a cheap and flexible source of credit where people can borrow money for a variety of purposes, from the payment of an unexpectedly high electricity bill to a pair of children's shoes; from roof repairs to the installation of a shower. Credit unions fulfil these needs, with the minimum of fuss and formality.

A credit union, then, is a self-help savings and loan co-operative whose members have a common bond: they work together, live in the same community, belong to the same church, club, trade union branch, or tenants' association. The basic purposes of a credit union are to provide a safe, convenient depository for members' savings; to lend to members at low rates of interest; and to help and encourage members to save regularly and to organise their financial affairs wisely. If a member wishes to borrow money he applies to the lending committee which considers the purpose of the loan, the member's saving and debt record with the union, his income and other commitments. The loan plus interest is repaid in regular instalments, agreed at the time it is made. Credit unions are democratic organisations, run by the members for the benefit of the members. They are non-profit-making, and any surpluses are returned to the members or used for their benefit. All committee members and officers are unpaid, except the Treasurer, who in the large credit unions may be remunerated.

Prospects in Britain

The Crowther Committee expressed the opinion that there is a prima facie case for encouraging the credit union movement and for taking steps to make its existence, aims and its methods known in the hope that it may take root here and more credit unions be formed in Great Britain. It is probable that the major reason why there are so few unions already operating here is the absence of suitable legislation under which they may register. There are at present about 45 credit unions in Great Britain, all fairly small, with an average membership of 200 and average assets of £8,500. The Government propose to introduce suitable legislation in the near future for two main reasons. First, and most important, they are sympathetic to the aims; the encouragement of regular savings, the provision of cheap loans, the encouragement of self-help and the fostering of the community spirit, and the educational objective of giving the members some experience in management. The second reason for legislating stems from the realisation that there are dangers in not having any regulation of credit union activities. Regulation and supervision will provide protection for the members. At present some of the credit unions are unregulated and unsupervised, and may be potentially vulnerable to fraudulent practitioners. Although Mr. John Roper, MP has made a number of attempts to secure the passage of a Private Member's Bill to amend the Industrial and Provident Societies Act in line with that of Northern Ireland, the Government has decided to include credit unions in the comprehensive legislation on deposit-taking institutions which was foreshadowed in the White Paper of August 1976. Such legislation is expected in the next session of Parliament. The matters which are likely to be regulated are the nature of the "common bond" among credit union members; the size of a loan that may be made; the value of a member's shareholding in a credit union; the rate of dividend payable on members' shares; and the rate of interest payable on loans. The total value of all loans will have to be kept within defined limits, profits may be appropriated only in accordance with the Act, and surplus funds may be invested only in the manner prescribed. Credit Unions are already exempt from the requirements of the Consumer Credit Act 1974 if the rate of interest charged on loans is 13% or less, under the provisions of the Consumer Credit (Exempt Agreements) Order 1977 - SI 1977 No. 326.

A Credit Union Steering Group has been formed, under the chairmanship of Mr. John Roper, MP, to encourage the development of the movement in Great Britain, and particularly to press for the enactment of suitable legislation. The membership of the group includes representatives of the Credit Union League of Great Britain, the National Federation of Credit Unions, Consumers' Association, the National Consumer Council and the Co-operative Union. Close contact has been maintained with the Irish League of Credit Unions, which has had considerable experience in this field. When the necessary legislation has been secured, a great deal of work will remain to be done. It is to be hoped that the Co-operative Union will be able to assist with the education of officers and committees of credit unions, and that the National Consumer Council will undertake some of the necessary publicity if the mass of consumers in this country are to appreciate the advantages of this new form of credit.

Relation of Consumer Movement

The long-established consumer co-operative societies should consider the possible effect of credit unions upon their own provisions, and what new opportunities may be created for trade with members of those unions who obtain loans for the purchase of durable consumer goods. There is no doubt that the Credit Union League and the National Federation of Credit Unions will have an important part to play in the sponsoring and fostering of new organisations in this country, but if the British experience follows that of other Commonwealth countries, as well as the United States, we may expect a rapid and substantial growth of the credit union movement in the next decade. The time may therefore be ripe, not only for a more formal link between consumer co-operatives and credit unions, but for the establishment of a federation of all forms of co-operative enterprise in the United Kingdom for purposes of common concern.