

WILEY



Co-Operation and Profit-Sharing

Author(s): Benjamin Jones

Source: *The Economic Journal*, Vol. 2, No. 8 (Dec., 1892), pp. 616-628

Published by: Wiley on behalf of the Royal Economic Society

Stable URL: <http://www.jstor.org/stable/2955798>

Accessed: 27-06-2016 08:25 UTC

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at
<http://about.jstor.org/terms>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.



Wiley, Royal Economic Society are collaborating with JSTOR to digitize, preserve and extend access to
The Economic Journal

CO-OPERATION AND PROFIT-SHARING

IN his article on 'Profit-sharing and Co-operative Production,' published in the September number of this Journal, Mr. Price comes to the conclusion that co-operative production 'regarded as a general principle, is doomed to failure.' I confess to having had difficulty in ascertaining what Mr. Price included under the term 'Co-operative Production,' and I am not certain that I have succeeded in grasping his exact limitations. It may be that, within the limits imposed by himself on the term, he is right in his conclusion; but granting this, the article seems so likely to continue the current mystification of the public as to what are the aims and principles of co-operators, that, in the absence of a better qualified person, I have felt it advisable to try to explain what we co-operators are really striving for.

The cause of the public mystification regarding the objects of co-operators is very clear to co-operative officials. It arises from the fact that while the ordinary working-man co-operative advocate has been busily propagating his doctrines among his fellow working men, and making numerous converts, he has not taken the trouble to equally inform the middle and upper classes. But the remnant of the Christian Socialist Association of 1849—52, which, on the failure of that organisation, attached itself to the co-operative body, has taken great pains to impress on the above-named classes the steadily growing importance of co-operation. In doing this the Christian Socialist writer has, no doubt unconsciously, inserted a pair of coloured spectacles between the eyes of the public and the co-operative cause; so as to convey the impression that co-operation had for its foundation the principle which the Christian Socialists imported from France, but which has met with little success in this country.

During their organised existence, the efforts of the Christian Socialists were directed to the establishment of working men's associations, which were to supplant the ordinary private em-

ployers. In these associations, the men employed were supposed to elect the officers, and to share the profits in proportion to the amounts of their weekly wages or allowances. All these efforts failed. Then those Christian Socialists who had allied themselves to the co-operators strove to convert that steadily growing body to their views on profit-sharing. The co-operators treated the subject in their usual manner. They thought over it, they discussed it, and they experimented with it. The result is, that after forty years, out of more than one million co-operators, there are some thousands who believe in profit-sharing as a principle, and some more thousands who believe in it as an expedient; but the overwhelming majority have discarded profit-sharing altogether, and reject it, either as being a useless expedient, or as being contrary to the fundamental basis of co-operation.

It is true that co-operative congresses have, again and again, passed resolutions in favour of profit-sharing; but in the comparatively few instances where it has been attempted to translate these resolutions into action at the business meetings of the societies, the attempts have been mostly unsuccessful. This peculiar result is said to arise from the congresses not being truly representative. By the rules, societies of a fair size have power to send more representatives than they will usually bear the expense of sending. But there are a number of enthusiasts desirous of ventilating their ideas, and of people wishing to enjoy a co-operative holiday, who are willing to pay their own expenses; and these people find no difficulty in obtaining appointments under such conditions. It is asserted that it is by the votes of these honorary representatives that resolutions in favour of profit-sharing have been carried; and as the congresses are not legislative, but only propagandist assemblies, whose resolutions have no binding force, the decisions recorded there are not acted upon, unless the respective societies agree with them.

Almost all the productive societies which at present carry out the practice of profit-sharing have been established within the last ten years; and the great mass of production and distribution carried on by co-operators is on a non-profit-sharing basis, as profit-sharing is ordinarily understood. It is a significant commentary on the prevailing co-operative practice, that some trades unions object to profit-sharing; strikes have taken place to try to prevent schemes of profit-sharing being put into operation; and at the present time there is an independent movement among metropolitan working men in favour of what they term non-profit sharing co-operation.

There is no doubt that the extraordinary zeal and enthusiasm of three or four Christian Socialists made a great impression on the co-operative body. Although they never persuaded the Rochdale Pioneers, or the Rochdale Corn Milling Society, to try profit-sharing, they did succeed in getting the Rochdale Manufacturing Society at Mitchell Hey to adopt the plan; and when, in 1862, this society reverted to the general co-operative practice of not sharing profits on wages, there was a great outcry against the members, from the Christian Socialist party, for having, as they alleged, deserted the principles of co-operation. Various forms of profit-sharing were, some years later, tried by several of the Oldham 'Working Class Limiteds;' but they were quickly discarded, and from that time efforts have been strenuously made to deny these Oldham organisations the title of Co-operative. Personally, I think them more co-operative than many of the productive societies, because, I think their constitutions and their practice produce a nearer approach to perfect equity.

The present annual production of commodities by co-operative societies, without reckoning the Oldham and other working class limiteds, is about as follows:—Baking, boot-making, tailoring, dressmaking, &c., by the retail societies, £3,000,000: corn-milling, over £2,000,000; manufactures of various kinds by the two wholesale societies, but excluding corn-milling, £600,000; and the manufactures of the organisations usually styled productive societies, £600,000. Of the profits made by these last named on their £600,000 of annual sales, about £3,500 is appropriated to the workers as their share; while, of the four and a quarter millions of profits made annually by the co-operative societies of the United Kingdom, it is doubtful if one-sixth per cent. is distributed among the employees of the societies by way of bonus, or profit-sharing, on wages.

Both Robert Owen and the Christian Socialists were, to some extent, benevolent autocrats who thought they knew better than the people themselves what the people needed; and when they could not get the people to see as they thought they should see, or to act as they thought they should act, they were oftentimes impatient, or worse. But, though in such cases the fault may be with the people, it does not follow that it is, for when a proposal fails to receive acceptance, it may fail from the obtuseness or perversity of the people who refuse it, or from the teaching incapacity of the proposer, or from the insufficiency of the proposal to do what is expected from it. In any case, the essence of democracy lies in the inherent right of the people to go wrong as

well as to go right; for unless the majority are to judge and decide, who is to set up a standard, and who is to enforce it?

Although co-operation is mostly the outcome of the Owenite agitation of seventy years ago, neither the views of Owen nor of any other advocate have been accepted in their entirety. In this respect only co-operators may justly be accused of desertion or inconstancy, if it is worth the trouble to make the accusation. But throughout they have been true to the democratic ideal of being governed by the voices of the majority; and it is this faithfulness to a central idea that has been the cause of their success. In their efforts to solve the difficult problem of which is the best form of organizing the individual so as to secure the greatest benefits, as well as mutually equitable treatment, the co-operators have steadily distinguished between the objects and the means of obtaining them; and, while they have always kept their objects in view, they have frequently changed their methods of trying to secure them, so as to cope with altered circumstances, or so as to achieve success when other methods had failed. Bearing this in mind, a brief survey of the route travelled by co-operators may help us to form an opinion as to whether the working classes have, or have not, devised an effective means of obtaining industrial justice, and which, with some modifications, may be destined to receive universal application.

In 1820 Robert Owen asserted that 'the mass of the population are become mere slaves to the ignorance and caprice' of certain monopolists; and he proposed to establish village communities which should be governed by the inhabitants upon principles that would ensure 'a complete reciprocity of interests.' Owen further asserted that 'as the easy, regular, healthy, rational employment of the individuals forming these societies will create a very large surplus of their own products beyond what they have any desire to consume, each may be freely permitted to receive from the general store of the community whatever they may require. This, in practice, will prove to be the greatest economy.'

It is, perhaps, easy for us, at the present day, to see that human wants increase as rapidly, or even more rapidly, than human ingenuity can satisfy; and it is, perhaps, just as easy to see that we are as far off now as we were seventy years ago the point of being able to create such a surplus of produce in general demand that people may be left free to take what they desire from a common stock, regardless of what they put into it. But in Owen's day thousands of people, not all of whom were

destitute of wealth, were converted to Owen's views; and it was only after the failure of Orbiston, Queenwood, and other efforts that the community idea was abandoned.

For the purpose of establishing communities, as advocated by Owen and his disciples, societies were organised, which collected small weekly subscriptions from their members. But as these subscriptions did not accumulate with sufficient rapidity to satisfy the communists, a first step towards complete association was devised, by means of which the accumulation of funds would be accelerated. The following extracts from the 'Brighton Co-operator,' published in 1828, show the method adopted and the reasons for adopting it:—

'Wherever you go, you hear of hard work, low wages, and pauperism. This distress is the inevitable consequence of working for others instead of working for themselves. . . . Co-operation being a subject quite new to the working classes, it is natural they should be ignorant of it. . . . It is capital we want. . . . Union and saving will accumulate it A man wants nothing but his wages and an honest companion to begin. . . . If a number of working men were to join together they might do greater things. They might have a shop of their own, where they might deal for everything they wanted. . . . As the business increased, the profits and the capital would increase. . . . In less than a year you will be asking, What shall we do with our surplus capital? The answer will be, Employ one of your members to manufacture shoes or clothes, &c., &c., for the rest; pay him the usual wages, and give the profits to the common capital. In this way they will proceed, as the capital increases, to employ one member after another, either to manufacture articles consumed by the members or by the public. Beginning to manufacture for the members, the sale is sure When the capital has accumulated sufficiently, the society may purchase land, live upon it, and cultivate it themselves, and so provide for all their wants of food, clothing, and houses. The society will then be called a community But if the members choose to remain in a town instead of going into a community, they may derive all the advantages from the society which I have stated.' A tract published in 1828 by the Union Exchange Society, of 28, Tottenham Street, Tottenham Court Road, gives the same leading idea:—'Let the clothiers unite with the producers of food, and establish one common store, and exchange the productions of each other's labour on the equitable principle of value for value. They will then be able to procure

every necessary comfort of life, free from enmity and with little cost of labour.'

In 1832 there were between 400 and 500 co-operative societies working on the lines laid down in the 'Brighton Co-operator;' and some of these are still living. When the community idea had been given up as a failure, it was found that these stores still served a useful purpose, and were consequently worth supporting for themselves. There also remained with many the hope that greater things could be steadily evolved from them. As the profits of store-keeping had to be appropriated in some way now that the original object was abandoned, the practice was adopted in the majority of the societies of dividing them in proportion to the amount of capital held. This appeared equitable at the time, since it was the custom for each member to subscribe an equal amount of capital. But gradually inequalities crept in; some members acquired additional shares by purchase from retiring members, or in other ways, and the final results of sharing profits in this manner were to cause the societies to degenerate into private shops, or to close their doors altogether through the lessened interest taken in them by the public, on whom they had to rely for support.

The constant search for practical justice brought to light the idea of dividing the profits of co-operation in proportion to the amount of the purchases made by each member. As far as can now be ascertained, the idea was first worked out by one or two Scotch societies. Then a Yorkshire society adopted it, and others followed the example, including the Rochdale Pioneers, who started business in 1844. The enthusiastic ardour with which Rochdale acted as the apostles of co-operation, and the success that attended their missionary zeal, have caused this plan of dividing profits to become universally known as the Rochdale System of Co-operation. Almost all the 1,500 societies now in existence, with their fifty millions of annual sales, are worked on this plan, the only exceptions being two or three old societies that still adhere to a more or less modified form of dividing profits on capital, such as the Devonport Union Mill Society, where the profits are shared among the members in bread, but not in money, regardless of the amount of the members' purchases.

The objects which the Rochdale Pioneers set before themselves when they started, serve as a convenient landmark to indicate the then standpoint of co-operators. Briefly they were, a store to supply all the members' wants of provisions, clothing, furniture, and firing, the building or purchasing of houses for the members,

the employment in manufacturing of those members who were out of work or suffering from reductions in wages, the acquisition of agricultural land for a similar purpose, and 'to arrange the powers of production, distribution, education, and government.' This society has, during its forty-seven years' life, made profits amounting to £1,289,767. It has nineteen news rooms, and libraries containing 17,318 volumes. It has a series of technical, science, and art classes attended by 345 students; and, out of its profits, it spends £1,400 a year on educational work.

The formation of the Co-operative Wholesale Society, in 1864, was the next step in co-operative development. This organisation is a union of co-operative societies, and individuals cannot become members. Its object was, and is, 'to bring the producer and consumer of commodities nearer to each other, and thus secure for the working classes those profits that have hitherto enriched only the individual.' How far it, and its one sister, the Scottish Wholesale Society, have succeeded may be judged by facts and figures. Their capital is £2,363,125, supplied by shareholding societies possessing 948,375 individual members: their annual sales are £11,594,466; and the annual output in their manufacturing departments is £756,926. They have buying branches in America, Denmark, and Germany, which ship cheese to Britain direct from the Co-operative Cheese Factories of New York State and Canada, butter from the Co-operative Creameries of Denmark and Schleswig-Holstein, and bacon from the Co-operative Pig Factories of Denmark. Similarly, they have seven branches in Ireland, which buy butter direct from the farmers, or from the Co-operative Creameries which, during the last two or three years, have been established there mainly through the initiative of British co-operators. A buyer also visits Greece every year, and purchases thousands of tons of currants from those ancient co-operative communities, the monasteries and nunneries of that country, which possess large estates that are cultivated by, or under the direction of, the monks and nuns. I have been in the employ of the Co-operative Wholesale Society for over twenty-six years. When I first entered their service, they rented a small warehouse in Manchester at £60 a year, and employed eight men and boys. Now they possess land, buildings, machinery, and steamships, that have cost £819,239; and the Scottish Wholesale Society, which was formed on the lines of the older society in 1868, possess land, buildings, and machinery that have cost £205,603, making a total of £1,024,603, while the two societies are employing 6,655 persons.

The constitution of these two wholesale societies is essentially democratic, and without rivalry they work hand in hand for mutual benefit. The smallest, or poorest, co-operative society can become members by making an investment of a few shillings ; and by virtue of this investment it is at once admitted to the same rights and privileges as the oldest or wealthiest shareholding society. In the same manner, the poorest individual can become a member of a co-operative retail society ; and thus secure all those combined benefits of co-operative distribution and production which, stretching in long lines from Greece, Germany, Canada, the States, and many other countries, right into the homes of the British working men, are now being enjoyed by about five millions of men, women, and children.¹

The Co-operative Union, which is the propagandist organisation of the co-operators, has lately presented to the Labour Commission evidence relating to co-operation through four representative witnesses.² These witnesses presented views respectively of co-operative retail and wholesale distribution together with production by federations of consumers ; co-operation of all kinds in Scotland ; co-operative production as advocated by what I may call the Christian Socialist School ; and the extent and variety of co-operation in the borough of Oldham. The statements of these witnesses show the different points at which co-operators now stand. Mr. Joseph Greenwood, for the Christian Socialists, defined ' co-operative production to mean the carrying on of any industry in the interests more particularly of the workers who are employed therein. ' Mr. Maxwell, for Scotland, laid stress upon the unity of interests brought about by capitalists, customers, and workers, each having a share in the management and in the profits ; and pointed out the greater steadiness and continuity of employment in co-operative organisations, as well as the educational power of co-operation.

Mr. Hardern explained what may be termed the Oldham view of co-operation ; which is essentially Association for the benefit of the Associates. First, the store teaches habits of thrift, the practice of justice, and business management. Then, thriftiness having created capital, the store acts like the mother bird which tips its young ones out of the nest in order that they may learn to fly ; it insists on the members taking their savings, and invest-

¹ Miss Potter's ' Co-operative Movement ' is a very interesting and accurate sketch of co-operation. Acland and Jones' ' Working Men Co-operators ' contains minute details of the methods of organizing and managing the Societies.

² See Minutes of the Labour Commission, October 25-26, 1892.

ing them on their own responsibility instead of leaving them in the store. Stimulated by the necessity of finding investments, the Oldhamers have taught one another that the best method is to employ their savings in the staple trade of the district; thereby securing a fair return on their capital, and ensuring industrial prosperity to the people. This they have carried out with such success, that the 'Working Class Limiteds,' as they are often called, now control the major portion of the cotton spinning of the Oldham district; and the result is, that the remuneration of capital invested in cotton spinning has decreased to about two-fifths of what it was thirty years ago. Further, whenever the profits rise above 5% per annum on the capital, quite a crop of new companies spring up to take advantage of the increased prosperity. These new companies do two things at one time. They keep down the profits of capital; and by creating a demand for more labour, they keep up, or increase, the wages of the workers. Mr. Hardern contends, on behalf of Oldham co-operators, that these democratic associations produce the best form of profit-sharing; and that the workers, in reality, get more than they would under Mr. Greenwood's methods. He also says that there is more continuity of employment than in the old days of private firms; and he concludes, 'I do not know of any industrial town in the United Kingdom where the people are more thrifty and independent than in the town of Oldham; they are well paid, well fed, and well housed; and I am quite sure that this state of things is attributable to nothing so much as to the co-operative spirit of the people.'

Mr. J. T. W. Mitchell, speaking for the English co-operative consumers, dwelt, like Mr. Maxwell, upon the superior continuity of employment of the work-people in co-operative societies, and the security for just treatment afforded by the democratic constitution of the societies. He said, 'We endeavour to conduct our productive establishments with the highest regard to efficiency of workmanship, combined with the sufficient remuneration and comfort of the worker. We produce goods for sale only in our co-operative stores, and we encourage all our work-people to become members of the local stores, in order that they may obtain the best goods, made under the best conditions, for which only a fair price is asked, and on which they get returned any surplus which would otherwise be intercepted by the middleman. We claim that, by this system, the working man gets his articles at the net value after the labour expended upon it has been adequately rewarded according to its merits.'

The statistics supplied by these four witnesses exhibit some remarkable facts. In the borough of Oldham there are seventy-six joint stock spinning companies, with £5,328,190 of capital. As true democracies should be, all sorts of people, merchants, doctors, lawyers, shopkeepers, labourers, and domestic servants, are shareholders. Mr. Hardern had analysed the lists of the shareholders and loanholders in twelve of these companies, and found that between 49 and 50% of the capital was held by working people. The Oldham Co-operative Stores spend out of their profits £3,250 a year on educational work, and although that other form of co-operation, the building society, is very flourishing in Oldham, they have used £165,103 in supplying cottages to their members. Mr. Mitchell instanced the Bolton Society as having advanced £258,265 to its members 'to build houses for themselves,' and as granting out of its profits £1,900 a year for educational purposes. He also gave a list of businesses carried on by 919 societies, from whom the information was collected in 1887. These societies, at that date, had 5,010 places of business for carrying on fifteen distinct branches of trade; thus exhibiting a remarkable development on the lines laid down at Brighton over sixty years ago. A fact not mentioned to the Royal Commission is that fifty-seven societies are carrying out that item in the Rochdale Pioneers' programme which related to the hiring or purchasing of agricultural land, although Rochdale itself has not yet done anything in this direction. The total holdings of these societies are 6,386 acres.

During the last few years too, co-operators have, as an organised body through their Co-operative Union, turned their attention to another item in the Rochdale Pioneers' programme, viz., arranging 'the power' of government. The Union now has a regularly constituted and representative Parliamentary Committee which, as its chairman explained to the Royal Commission on Labour, was 'working in harmony with and rendering all the assistance we possibly can to the Trades Unions Parliamentary Committee,' and is specially 'interested in the promotion, development, and improvement of a number of measures calculated to benefit and protect the working classes of the United Kingdom.'

Mr. Mitchell contemplates co-operation solely from the point of view of the consumer. This embraces everybody; and he insists that if all were co-operators, labour would get its just wages as estimated by the officers, who are elected by, and amenable to, every member of the co-operative body. Capital

would also get its just wages, as estimated in a similar manner ; and each individual, whether worker, or capitalist, or both, as a consumer would not only get his wants supplied at a price fixed by the cost of capital plus the cost of labour, but would have a controlling voice as to the conditions on which the co-operative organisations shall be conducted. This, Mr. Mitchell contends, is a system of pure justice. It abolishes the sweating and oppression of labour ; it abolishes a host of useless middlemen by the regulation of business to the known requirements of the consumers ; and it reduces the remuneration of capital to a minimum by substituting assured fixed payments for the uncertain profits of speculation. In this system Mr. Mitchell contends that there is no place for profit-sharing on wages.

The only weak point in Mr. Mitchell's theory is that all people are not co-operators, and are not likely to be yet a while. What are we to do until this millennium is reached ? Mr. Maxwell says, Adopt the methods advocated by Mr. Mitchell, but add to them special representation of the workers on the management of the federal institutions, and give them a share of profits in proportion to the amount of their wages. Thereby he thinks that the gap may be bridged that separates a state of complete co-operation from the present divided condition of society, where there is both co-operation and competition, and where the latter still preponderates. Mr. Greenwood is, in practice, at one with Mr. Maxwell, although in theory he would put the worker in the front. But experience has shown that where the worker has been put in front of the capitalist, or in front of the consumer, instead of abreast of them, evils have been generated which have repeatedly wrecked the associations ; while in the cases where the theory has been modified in practice, such as at Hebden Bridge where Mr. Greenwood is manager, the result has been to give stability and permanence to the society.

Mr. Hardern, on behalf of Oldham, boldly asserts that industrial democracy, whether of capitalists or of consumers, has been, and from its very nature must be, beneficial to the worker and to all classes of the community. The interests of one class become inextricably blended with the interests of the others, and the result is justice. Judging by the condition of Oldham, his opinion is not inaccurate ; and if he is right, we may fairly conclude that there is more than one method of working out the problem to a satisfactory solution.

Co-operators have always insisted that happiness is the only true wealth, and that all other forms of wealth are only valuable so far as they can be transmuted into happiness. The promotion of the happiness of the people has been their one aim; and the constant idea running through co-operative efforts has been the working together on equitable lines for mutual benefit. This has caused the application of the democratic principle to all the affairs of life. Equal opportunities for all are the essential conditions of co-operative organisations; while the absolute necessity of well-informed intelligence among the members has been recognised by the contributions they have made for educational purposes, which now amount to £37,000 a year, or more than what the Imperial Government granted in aid of working-class education at the time co-operation was in its infancy. A great contrast between a co-operative society and an ordinary firm is shown by the readiness with which the co-operators impart and exchange knowledge, as against the care with which private firms wrap their methods of business in a thick covering of secrecy. This in itself proves that the one form is unselfish and is for the universal public good, while the other is selfish and is devoted to personal gain.

Looking at the condition of the country as a whole, I am inclined to think that we are approaching a meeting of the waters of conflicting interests, which, under the influence of a widely spread desire for justice, will probably blend themselves harmoniously into a universal system of democratic organisations. We see that the holders of monopolies and privileges are being steadily pushed backwards, although it must be admitted that in some directions they are stealthily making some ground. Then the majority of capitalists seem less inclined to take the personal oversight of their property, but prefer to invest it in such a manner as to enable them to receive remuneration for its use with the least amount of trouble to themselves. This has caused a tremendous growth in joint stock companies; and these companies are beginning to find it necessary to unite all interests in their support. Thus the successful conversion of Guinness's into a company was enhanced by the consideration given to the firm's customers; while in the case of Allsopp's, neglect of this has caused serious losses. At the other end, the workers are more generally enrolling themselves into trade unions, with the object of securing full remuneration for their labour; and they are enrolling themselves into co-operative societies with the object of getting full value in exchange for their wages. Thus the country is being

T T 2

covered by associations ; and it seems as if the private employer or shopkeeper will soon be a thing of the past.

It is not difficult to imagine that we shall quickly see a ready acquiescence of all classes in a determination to give and receive justice, in place of the past and present practice of getting all one could or can. The economic law which ensures the triumph of the most efficient machinery will bring this to pass ; for co-operation, being based on a desire for justice, has beaten out of the field numerous opponents, because it gives fuller opportunities for the right men to be placed in the right positions, and because it has had to expend comparatively little on those methods of commercial or industrial warfare which are so costly in competitive trading. Hence, if the consumers, who are all the community, are once clearly enlightened on the point that justice ensures economic efficiency, all the old fighting element will disappear, and there will then be nothing to prevent the rapid adaptation of democratic organisations to every function and phase of life, from the family to the international relations of the world. This is what Mr. Mitchell, voicing the majority of co-operators, is striving for. He knows he won't reach the goal yet awhile ; but, as a true prophet should, he has faith in the future.

BENJAMIN JONES