

# The Worker Cooperative Movement in Britain

Mary Mellor

## **Background**

The worker cooperative movement in Britain has never been as strong as the consumer cooperative movement and the reasons for the relative success of the one and the relative failure of the other are directly connected. If we look at the development of strong worker cooperative sectors such as in Mondragon, Italy or France, we find that they have had access to untapped cumulative savings, direct allocation of public resources, or some other 'windfall': the labour and savings of the Basque people, preferential treatment by Government or resources already present in failing businesses.

In Britain the consumer cooperative movement harnessed the needs and savings of the growing working class. Eventually, of course, it was strongly challenged by the private sector, but for nearly one hundred years it experienced tremendous growth and embraced 12 million people. Even now the consumer movement is holding more than 5% of the food market.

There were attempts to form worker cooperatives throughout the nineteenth century but very few experienced long term success. Although nearly a hundred producer cooperatives were formed, less than twenty survived into the second half of the twentieth century and no more emerged to join them.

The reasons were complex. Legislation militated against worker cooperatives as the Industrial and Provident Society Act (1852) demanded open membership for share-holding members but did

not allow those shares to profit as they would in a traditional company. As Sidney and Beatrice Webb pointed out, this meant that producer cooperatives tended to degenerate into private businesses as outside and inside share-holders sought to gain access to the accumulated surplus of the company.

A second major factor was the decision of the consumer movement to set up its own productive units rather than self-managing independent cooperatives. There was considerable debate over this issue, but the view prevailed that any profits the productive units made should accrue to the consumer societies and not the productive units themselves. It also seems that there was no broad grass roots impetus to form worker cooperatives in the nineteenth century and many of the producer cooperatives formed were 'top down' - set up by well-meaning people such as Christian Socialists.

### **The New Wave of Worker Cooperatives**

The twentieth century worker cooperative movement in some ways was not dissimilar to the nineteenth in that a religious commitment to cooperation (in this case Quakerism) was a primary motivation and the majority of people promoting the cooperative idea were (and are) middle class. In 1951 the Quaker Ernest Scott-Bader converted his chemical company to a commonwealth.

A small number of other companies followed suit and together provided the basis for the formation of DEMINTRY (Democratic Integration in Industry) in 1958. In 1971 this became the Industrial Common Ownership Movement (ICOM). In the 1960's and 1970s a number of new worker cooperatives were formed largely in the alternative sector (wholefood,

bookshops etc). Many of these still exist including SUMA, a multi-million pound wholefood wholesale company.

### **Creating a Cooperative Framework**

In 1976, ICOM cleared the legislative pathway for worker cooperatives by lobbying for the Industrial Common Ownership Act. This established the right of a cooperative to own its own shares as a collective rather than through individual owners. The ICO Act also set up a small revolving Industrial Common Ownership Loan Fund (ICOF). Worker cooperatives can now register either as companies (under the Companies Act) or as Friendly Societies (under the Industrial and Provident Societies Act).

Most new cooperatives register as companies limited by guarantee. This means that there are no shares and each member's liability on dissolution is limited to £1. Larger worker cooperatives are also registering as companies as it is quicker and less complex than IPSA registration.

As drawing up the structure of a company is complex ICOM has created eight sets of Model Rules for differing types of cooperative organisation. Where Model Rules are not appropriate ICOM tailors rules to each organisation's needs - an expensive and time-consuming exercise.

The distinction between a common ownership and other cooperative constitutions is central to ICOM. Common ownership means that the assets of a cooperative are held in common and cannot be distributed to the members in the event of the cooperative closing. If a common ownership should close its assets must always go to another cooperative or for social

purposes. There is no external shareholding and members who leave cease to be shareholders. ICOM argue that common ownership rules remove the incentive for members to 'asset strip' a cooperative. Non-common ownership cooperatives allow for the possibility of individual internal or external shareholding as long as the rate of return is limited and voting remains on a one member, one vote basis.

This pure form of common ownership has proved durable; 90% of new cooperatives register using ICOM model rules. But they do make raising investment funds very difficult. The model rules also establish an internal democracy with no restriction on membership within the cooperative and encourage social commitment. One area that has not yet been addressed in law is taxation. In much of Europe there are tax incentives for worker cooperatives. Cooperative members in Britain are taxed both as workers through income tax and as collective owners through company tax, even where the assets of the company cannot be distributed to the existing membership. It is hoped that eventually there will be a common European Statute for cooperatives that will regularise the position. Although cooperators pay National Insurance as workers, when it comes to claiming benefits they can often be classed as self-employed and therefore not entitled to worker benefits.

### **State Sponsored Cooperation**

In the 1980s the major growth in worker cooperatives came not from the voluntary sector, but from the Government. In the early 1970's and particularly following the oil price shock, economic restructuring led to the collapse of several large firms. Three of these were rescued as 'phoenix' cooperatives by the then Labour Industry Minister, Tony Benn. Eventually they all failed (although Triumph Meriden lasted ten years) but they achieved

several results. Firstly, it seriously undermined the principle of establishing a cooperative out of a failing commercial firm. Secondly, it brought the trade unions on board in support of cooperatives (hitherto they had been deeply suspicious). And thirdly it led to a political commitment to cooperative development as a means of economic development.

In 1978 the Cooperative Development Agency Act was passed. This set up a funded promotional agency, the National Cooperative Development Agency - (NCDA). Local Councils also funded around eighty local CDAs and about another 20 voluntary agencies were in existence. We can trace the rapid growth in worker cooperatives to these initiatives. The number of cooperatives rose to around 1,200 in 1986 from under 20 in 1975 and employing around 10 - 12,000 people.

In the early 1980s commitment to cooperative development was cross-party. In the 1983 election, the Labour Party went so far as to suggest that private companies could be converted to cooperatives if the majority of workers so wished. However, by the end of the 1980s cooperative development ground to a halt and all political parties seem to have lost interest in them.

The Conservative Government, despite being sympathetic to worker cooperative development on taking power in 1979, reduced the funding of the NCDA and cut it completely in 1989. It was finally closed in 1990. The Conservative squeeze on the finances of Labour local Councils (the main funders of local CDAs) and its general attack on public services led to rapid decline in the number of CDAs. There are still around 80 left, but only 50 have any funding and this is much reduced. Most cooperative development workers are no longer in separate agencies but back in economic development units. At the end of

1991 the Department of Trade and Industry allocated small sums of money into cooperative research and development under a Small Firms Initiative but that has now dried up. In 1993, we still have around 1,200 - 1,300 worker cooperatives, which despite the recession does indicate that cooperatives once firmly established do seem to survive better than private firms. ICOM has calculated the failure rate of cooperatives to be 50% that of private firms. In 1992 the ICOM registered the lowest number of cooperatives in nine years, 100. In the best years it had been registering nearly 300 (1985/6).

Although there has been some turnover in cooperatives and a decline in the number in London, following abolition of the Greater London Council in 1985, the sectoral spread of worker cooperatives has remained fairly stable. Their distribution in 1992 was: Fishing, forestry and agriculture 2%; Construction and Mining 7%; Manufacturing 15%; Business services 9%; Personal Services 22%; Cultural industries 27%; Wholesale and Retail 16%; Transport and Communications 2%.

Most worker cooperatives are small, between 4 - 6 members/workers, but this should be seen in the light of the fact that 94% of all businesses in Britain have under ten employees. Most worker cooperatives are new start-ups, only around 10-15% are rescues/phoenix companies and very few are conversions from private companies. There has been a resurgence of phoenix work by the Scottish Cooperative Development Company (formerly Committee). Over 150 failing firms were targeted, 50 replied positively and 9 phoenix cooperatives were formed.

### **Job Creation Cooperatives**

The main motivation for forming worker cooperatives in the 1980s was job creation. As a consequence the typical worker

cooperative tended to be formed in sectors that were labour intensive with low overheads such as small scale manufacturing and personal services. This has been generally recognised as leading to the possibility of self-exploitation where a worker in a cooperative accepts lower wages and worse working conditions than workers in a private company. This was certainly true of many of the job creation worker cooperatives.

The impetus for job creation cooperatives was twofold, the desire of people facing unemployment to secure a job for themselves and the need for CDAs to play the 'numbers game' to ensure future funding. Neither really helped the long term development of a worker cooperative sector. Many of the would-be cooperators had no real understanding or previous commitment to cooperative principles and therefore tended to veer between early enthusiasm and later disillusion, a disempowering experience. In addition many of the CDA workers were new and very few had business experience in either cooperatives or traditional firms.

A key debate centred (and still centres) on whether cooperative development should be 'top down' or 'bottom up'. There have been bad experiences of both. In 1987 the Conservative Government launched a £200,000 cooperative initiative in a deprived area (Middlesbrough). The NCDA took a 'top down' approach and set up cooperatives to which they 'recruited' members. This venture proved to be an expensive failure and contributed to the closure of the NCDA. However, the Scottish Cooperative Development Company has operated a very top down model with some success.

Nor is 'bottom up' cooperative development unproblematic. Often business ideas are not realistic and CDAs have found it

difficult to tell hopeful cooperators that their ideas would not work. In either case dependency remains a big problem.

Job creation cooperatives were also grossly under-capitalised and subject to very high gearing. In addition, the people involved tended to have a very strong aversion to debt and felt unhappy with speculative investment. There are some revolving loan funds around the country for cooperatives but worker cooperatives have not been able to tap into the funds of the consumer cooperative movement. The Cooperative Bank offered a £1 loan for each £1 invested in the cooperative at commercial rates.

The political focus of the CDAs also meant that cooperatives were formed where the funding was available rather than in regional clusters or following a 'natural' growth model. This means that it was hard to develop cooperation between cooperatives so as to form an integrated alternative economic framework and shared expertise. It is a truism of cooperative development that worker cooperatives need a good structure of support, not only in the initial stages but throughout the life of the cooperative. There should be on-going support in the form of technical advice, further training and networks for marketing and securing supplies.

Worker cooperatives also need to find a source of non-speculative finance. One possibility is the 'rolling up' of welfare benefits into a Basic Income Scheme as the Green Party in Britain has advocated. This would give people a basic level of financial support from which to develop their business.



## **The Present Situation**

As early as 1988 an article in the ICOM journal The New Cooperator argued that job creation cooperatives were making 'enormous demands' on very vulnerable people. As worker cooperatives became less popular the focus moved to new developments, such as worker buy-outs, Employee Share Ownership Plans or the more democratic Employee Common (or Cooperative) Ownership Plans. In 1991 there were fifteen ESOPS but only three were based on a genuine democratic model. ESOPs tend to be large with several hundred members/employees. The main area in which they exist is privatised bus companies where they account for 35% of the market.

Another growth area is community businesses. These are set up by (and for) local residents in an area to provide them with services - such as cafes and launderettes - and jobs. All people within a designated area are eligible for membership and must be in a majority on the Board of Directors. Other groups or institutions may also be members and serve on the Board - such as local councils. Most community businesses not normally set up as independent cooperatives. It is felt that poor people are less vulnerable in community businesses or Development Trusts (where resources are given to a community to administer), than in isolated cooperatives.

Much of community life lies in the work and activities of women and they are the backbone of community businesses providing many needs that are not met by the commercial sector childcare, local leisure pursuits and locally available goods and services. A major problem for women in both cooperatives and community businesses is lack of confidence. Despite the fact

that they are often responsible for the financial affairs of their families, women feel uneasy with business finance, often claiming that they do not 'understand figures'. What this tends to mean is that they do not understand figures as accountants present them. Training is very important to overcome these problems, beginning with a 'demystification' of the language of business. In Britain, a large training programme has been run by ICOM Women's Link-up that trained around 750 women between 1984-7. The legal position for community businesses requires that they, like common ownerships, must distribute their assets for the benefit of the community and not the actual members. ICOM has recently linked up with Community Enterprise and Community Business networks to publish the common journal New Sector. ICOM has also recently changed its rules to open its membership to employee-owned companies and similar democratically run organisations.

The decline in the number of funded CDAs and changing patterns of non-traditional economic development does not mean that cooperative development is entirely lost. In fact as well as the remaining funded CDAs and ICOM, there are a substantial number of cooperatives which provide cooperative development consultancies. ICOM and the local CDAs have also been able to dramatically expand their cooperative training through the European Social Fund. ICOM is now cooperative/voluntary sector co-ordinator for the ESF training initiative with about £5m to allocate. There are also moves to increase the status of cooperative training by getting it accredited via the National Council of Vocational Qualifications.

New opportunities for cooperatives are also being created by the privatisation of public services, compulsory competitive tendering and the move to community care. Obviously this is

politically sensitive, but many workers who were previously employed by the state (e.g. hospital ancillary workers, cleaners, laundry and catering employees) have formed themselves into cooperatives partly to keep themselves in work and partly to maintain the principle of a public service. In order to avoid the dangers of self exploitation there has been increasing emphasis on seeing worker cooperatives as part of a 'social economy' that brings together voluntary agencies, cooperatives, community business and mutual aid organisations such as credit unions.

A viable cooperative sector will not be achieved by creating isolated businesses that happen to be cooperatives. There is a much more fundamental task at hand. We need to create or reclaim a social and political framework that supports the idea of cooperation and has the imaginative power to sweep away the paralysing effects of current economic orthodoxy. A successful cooperative movement must always be part of an alternative economy, even if it has to live within or alongside a public or market economy.

Then, perhaps it may once again be possible for people to stay within a cooperative economy from the cradle to the grave as they did in nineteenth century Britain.

## Notes

- Much of the argument in this paper draws on the book: Mellor, M., J. Hannah, & J. Stirling (1988) *Worker Cooperatives in Theory and Practice*, Milton Keynes, Open University Press.
- The development of a wider social and political perspective has been proposed in Mellor, M. (1992) *Breaking Boundaries: Towards a Feminist, Green Socialism*, London, Virago.