

CHAPTER II

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PRINCIPLES OF CONSUMERS' COOPERATIVE MOVEMENT

The term 'consumers' cooperation' is an economic concept. It is one of the important activities which has occupied significant place in every sphere of economic life in different countries. The word cooperative movement started in England through consumers' cooperation and later on it spread all over the world.

2.1 Historical Background

The Industrial Revolution in England changed the entire socio-economic life of the people of England. The domestic system of production was replaced by the factory system of production. Rural population started shifting from villages to towns and cities for employment in the coming up industries. To some this change was a boon while to others it was a great source of insecurity and poverty. The factory system of production created socio-economic problems such as low wages, unemployment, exploitation of the working class and labour disputes, exploitation of child labour. The economists, political thinkers, social reformers all started to apply their minds to find out

solutions to these problems. The trade union movement could not provide better solution due to the lack of idealism. The cooperative philosophy based on some idealism could provide solutions to form the ideal society. The cooperators had something positive to do, their task was something immediate, practical and something in which every one could share. Even before the organizing the well-known 'Rochdale Pioneers Society' in 1844, the efforts were made by the founders of cooperative movement. Robert Owen (1771-1858), a great social reformer, had his own factory at New Lanark where he practised, experienced and developed the cooperative philosophy. He started cooperative colonies for the workers and pointed out that only the cooperative organizations could solve the problems of the working class. He was followed by Dr. William King, who openly advocated the philosophy of Robert Owen. This example inspired William Cooper and Charles Howarth to start the first successful venture in cooperative trading - a well known Rochdale Pioneers, 1844.

2.2 Rochdale Pioneers, 1844

The development of consumers' cooperative movement as an economic system is based on well associated name of 'Rochdale Pioneers'. This is the first consumers' cooperative society which was organized in 1844 at Toad Lane, Rochdale, England by a handful of textile workers-weavers (28).

The main objectives of the Rochdale Pioneers were:

- 1) To form an arrangement for the monetary (pecuniary benefit) benefit and improvement of social and domestic conditions of its members by raising a sufficient amount of capital in shares.
- 2) To establish the store for sale of provisions, clothing, etc.
- 3) To build, purchase houses for the members.
- 4) To manufacture such articles as the society may determine from time to time for the benefit of unemployed members.
- 5) To purchase or rent an estate of land which shall be cultivated by the members.
- 6) To undertake production and distribution of commodities required by the members and to establish self-supporting home colony of united interest.

The Pioneers also formulated principles of consumers' cooperative societies, which later on were known as Cooperative Principles.

These principles of consumers' cooperation are small in number but fundamental. They are nothing but set rules based on sound footing for conducting the affairs and attaining objectives of any institution.

2.3 The Rochdale Principles, 1844

Following are the principles of consumers' cooperation laid down by the Rochdale Pioneers in 1844.

1. Open membership.
2. Democratic control.
3. Limited interest on capital.
4. Distribution of profits in proportion to purchases.
5. Cash trading.
6. Dealing in pure and unadulterated goods.
7. Members' education.
8. Religious and political neutrality.

Since 1844 these principles spread all over the world and Rochdale Pioneers acquired the reputation of being recognized as principles of cooperation.

2.4 1937 Committee of International Cooperative Alliance (I.C.A.)

In course of time, cooperative movement spread out in various countries like Germany, Italy, Denmark, etc. and various forms of cooperative organizations were developed. It began to be doubted whether Rochdale principles formulated in 1844 would meet the needs and requirements of the newly developed forms of cooperation such as producers' cooperatives, credit cooperatives, industrial cooperatives. There was an ideological difference of opinions when the cooperative

forms were formed in Russia. In 1930 at the Vienna Congress of the ICA, the Central Committee was asked to appoint a special committee to examine the conditions in which the Rochdale principles were applied in different forms of cooperatives and formulate the principles of cooperation. The special committee was formed in 1934 at the London Congress of ICA. The report entitled 'Present Application of the Rochdale Principles of Cooperation' was approved by the Paris Congress of ICA in 1937. The committee divided the Rochdale principles in two parts: (1) Essential or obligatory principles, and (2) Non-essential principles.

Essential or obligatory principles

- 1) Open membership
- 2) Democratic control
- 3) Limited interest on capital
- 4) Distribution of surplus to members in proportion to their transactions.

Non-essential principles

- 1) Political and religious neutrality
- 2) Cash trading
- 3) Member education (promotion of education).

2.5 ICA Commission on Cooperative Principles, 1966

"The cooperative movements in different countries went

their own way, improving their own modifications to all the more and less essential principles set out in 1937 report."¹ After 1937, socio-economic and political conditions of various nations were changed and naturally cooperative had to adopt themselves to the changing socio-economic and political environment. The principles formulated by the 1937 ICA Commission found to be unrealistic and outdated in the rapidly changing times. Thus the need for review of the principles of cooperation was recognized. The matter was therefore discussed at the 22nd Congress of ICA 1963 and next year i.e. in 1964 ICA appointed a Commission on Co-operative Principles and it was empowered to study which of the principles of the Rochdale Pioneers retained their importance at the present time and which should be changed and it was asked to formulate new principles, if any. Dr. D.G. Karve, a well-known cooperator and an authority on cooperation was appointed as the Chairman of the Commission. This Commission took the note of the fact that the cooperative movement in the world was functioning in three different groups of countries with their socio-economic situation. Democratic countries in the Western, like England, U.S.A., socialist countries like U.S.S.R. and the developing countries like India where socialism and capitalism are

1 D.G. Karve. Cooperative Principles: Mission and Profession, Souviner, 5th Cooperative Congress, 1967, p. 80.

working as via media to attain economic objectives. The Commission also viewed that vast structural changes evolving consolidation, concentration and integration are taking place in the cooperative movements. A large number of societies were formed in the fields of production, distribution and marketing. These cooperatives experienced difficulties in maintaining their traditional practice.

The Commission submitted its report to the 23rd Congress of ICA held at Geneva in 1966 and the report was accepted by the Congress as "a significant statement of cooperative principles in a modern setting". The Commission reaffirmed the first four principles in fuller form, adopted the promotion of cooperative education as the fifth principle and added a new principle described as principle of growth - "Cooperation among Cooperation". It gives a brief account and history which shows as to how these principles of Rochdale Pioneers were undergone for changes and formulated sound principles of cooperation which covers all facets of cooperative organization including consumers' cooperation.

Now, these principles can be analysed in the following manner.

1. Open Membership

There is the chief characteristic of consumers' cooperatives or any other form of cooperative organization.

As it is a voluntary association of persons having common economic interest, membership of a cooperative society, therefore, should be available without artificial restriction to all persons who are interested in the cooperative organization. The concept of open membership implies homogeneous interest of the members who are coming together for mutual benefit. The common economic interest is the pre-condition for membership of any cooperative organization. "It does not mean that there is no restriction on admission of new members. They must have a legitimate interest in the activities of the cooperatives, and willingness and capacity to contribute to its efficient working is natural and necessary precaution."¹

The Mirdha Committee on Cooperation, 1965, also considered this question and remarked that 'a society must keep its doors open for the admission of all persons who desire to join it provided they have common economic interest' ... open membership does not mean that anybody can demand right of admission to any cooperative society, it only means that a society formed with certain definite objects keeps its doors open to all people who share those objects. For example, moneylenders cannot be admitted in the credit cooperative societies, traders cannot be admitted in the

¹ P.R. Dubhashi, Reformulation of Cooperative Principles, Maharashtra Quarterly, April, 1968.

consumers' cooperative society, because moneylenders in the case of credit cooperative societies or traders in the case of consumers cooperative society have different interests. Thus the open membership is a broader concept.

2. Democratic Control

In the words of Paul Lambert "Democracy is the cardinal principle which distinguishes cooperative business most sharply from capitalist business and it can be applied uniformly to any type of cooperative". Cooperative societies are democratic organizations in which the affairs are administered by the elected persons who are accountable to the members of the society. Every member of the society is the owner of the society and has the same rights and privileges of ownership as any other members. The General Body of the cooperative societies which consists of all the members, is the supreme authority in regard to the conduct of the affairs of the society. The affairs of the society are managed and controlled by the Directors collectively called as "Board of Directors" or "Managing Committee" in accordance with the democratically expressed will of the members. The management is elected or appointed in a manner agreed by the members and it is accountable to the members. As it is a democratic organization all members are put on an equal footing irrespective of the number of shares held by them, their economic position and social status. Democracy

is the essence of cooperation for attaining its objectives. ICA Commission has said "primary and dominant purpose of cooperative society is to promote the interest of the membership" and this common economic interest is determined by the members themselves. Cooperative society thus functions as self-governing institution. Management must vest with the members and there shall be no external interference. The ICA Commission said, "autonomy is therefore a corollary of democracy". There is new thinking in countries like England and Sweden to provide proportional voting rights to the members according to their purchasing made in the consumers' cooperative societies, but this is contrary to the democratic principle and it is purely an economic consideration rather than ideological one. Dr. Y. Don has pointed out that "effective control has slipped away from shareholders and has become domain of the professional executive."¹

The proper democratic functioning of cooperative organization depends on member-education programme undertaken by the societies.

3. Limited Interest on Share Capital

This is another important principle of cooperation

¹ Dr. Y. Don. 'Consumer Cooperation: A Functional Approach', Review of International Cooperation, Vol. 63, No. 9, 1970.

regarding limited interest on share capital. The pioneers of the cooperative considered that it would be ideal if no interest is paid on shares, but they could realise the fact within a short time that they could not mobilize the necessary capital without paying interest on shares. As the share capital is considered as an instrument of production and as an input which expects to receive fair remuneration. As Prof. D.G. Karve has pointed out in his report, "Whenever a cooperative borrows capital in any form, from members or non-members, it stands to reason and it sacrifices no cooperative value, to remunerate the capital by a fair rate of interest."¹ According to Mirdha Committee on co-operation, this principle of limited interest on capital is the basic element of cooperative ideology. It helps to promote economic equality and makes the operation of principles of patronage refund possible. The ICA Commission 1966 has made clear that the payment of interest is not compulsory, but if it is to be paid on share capital, the rate of interest should be limited and fixed. But this concept of payment of interest on share capital was criticised by Dr. Y. Don who felt that it would damage the proper functioning of the society. It should be reconsidered so that cooperatives may be able to raise the large amount of capital through members and not through banks.

1 D.G. Karve, Cooperative Principles and Substance, 1967, Gokhale Institute of Politics and Economics, Pune, p.5.

4. Distribution of Surplus to Members

Surplus is what remains after all expenses of running a cooperative enterprise are met. As per the ICA Commission rule, "surplus arising out of the operations of a society belongs to members of that society and should be distributed in such a manner as would avoid one member gaining at the expense of others". It means that surplus be distributed to the members in proportion to their transactions made in the consumers' cooperative society during the course of time. This is the basic principle of Rochdale Pioneers Society, 1844. In the words of the Prime Minister William E. Gladstone, 'it is the greatest economic invention of the 19th century'. Under a cooperative economy the social product i.e. profit should be distributed to members according to the business done through cooperatives and not according to their shareholding. This shows that loyalty of the society must be to its members and the members must be loyal to their society. The members have full freedom regarding distribution of surplus. It can be distributed as mentioned below.

- 1) By provision of development of business of the cooperative
- 2) By provision of common services
- 3) By distribution among the members in proportion to their transactions with the society.

Cooperation among Cooperatives

One of the principles of cooperation adopted by the ICA is "cooperation among cooperatives". The resolution of 23rd Congress of ICA held at Vienna in September 1966 explains this principle as:

"All cooperative organizations, in order to best serve the interests of their members and their communities should actively cooperate in every practical way with other cooperatives at local, national and international levels".

Explaining the need and background of inter-cooperative relationships, Prof. D.G. Karve, Chairman of the ICA Commission on Cooperative Principles observed, "The process of concentration and common action is gathering momentum in other forms of organization. A new industrial revolution of unprecedented magnitude and potentiality is sweeping over the world. National, regional and world bodies are being set up by private business as well as by governments. If cooperatives do not act without loss of time in support of their cause, singly and in combination, they may soon be swamped by the new forces of giant unit in public and private sector. Cooperation among cooperatives, almost an instinctive and compelling action, must henceforthwith be treated as essential and indispensable course of action on the part of each cooperatives".

Scope of Inter-Cooperative Relationship

There are two aspects of inter-cooperative relationship. Firstly the relationship among various tiers of vertical organizational structure of cooperatives which signifies the following:

1. Relationship between primary units and secondary units
2. Relationship between secondary units and state level units
3. Relationship between the state level units and the national units.

Secondly, there exists horizontal inter-cooperative relationship of cooperative units between one sector with another. For example, relationship between marketing societies and consumers' societies, consumer cooperatives and industrial cooperatives or processing cooperatives, so on and so forth.

In Indian cooperative sector, it is very much essential to have sound relationship among all cooperative forms, this is because, cooperatives work under mixed economy in which each sector is free to compete with other sectors. Individual cooperative unit on account of certain structural and financial weaknesses, is not in a position to compete with

the units belonging to other sectors which are better organized and cooperating in our country.

5. Member Education (Promotion of Education)

This is a very important principle laid down by the Rochdale Pioneers Society, 1844.

It has been recognized from the very beginning that education of members is an essential input for the cooperatives to achieve the desired results by democratic means. "Members' involvement and participation in the working of their cooperatives will not only make a positive impact on the business activities of the cooperatives but will also make the movement a real people's movement."¹ As the cooperatives are owned by members and managed by their leaders, the members and the elected representatives should be properly oriented for smooth functioning of the cooperative organization. As members are the backbone of the cooperative societies, who decide the fate of their organizations? Member education programme will enable to maintain their relationship with their organization still more intimately. Hence, it is necessary to provide them education regarding cooperative principles, cooperative management, rights and duties of the members, how to manage complex affairs efficiently. Through education only members can know the objectives of their societies, the means to be employed to

achieve the same and their own role in making cooperation a successful movement. Enlightened members are the asset who, apart from discharging the duties, can provide broad based leadership. It is not a secret that most of the ills of the Indian cooperative movement are due to the ignorance or apathy of members. At the national level, there is a committee for cooperative education which views the working of the education programme from time to time and gives guidelines for future development. The National Cooperative Union of India (NCUI) continues such educational programmes. At present there are about 800 cooperative education centres in different states which conduct classes for members and office-bearers of all types of cooperative organizations. There is a provision in the bye-laws of every cooperative society that some specific funds should be created out of gross profit for members education. But, unfortunately this is not properly implemented.

As said by late Prof. Karve, "for sheer survival no cooperator and no cooperative can afford to neglect any aspect of cooperative education, education of all citizens in the meaning and merits of cooperation, education of members in appropriate cooperative as well as business practice and education of administrators, managers and other personnel in the skills of their respective jobs." The ICA Commission has also pointed out that "cooperative education should be

provided to members, officers, employees and general public".

"The Mirdha Committee has also regarded promotion of education as a basic principle of cooperative movement and has recommended that every society must contribute to promotion of education not only financially but also by undertaking active programme such as dissimination of ideas of cooperation as well as general literacy in the countryside."

Besides these six fundamental basic principles of consumers cooperation and now widely applicable to all types of cooperative organizations, some other principles are also significant. They are as follows.

1) Cash Trading : Cash trading was considered to be an essential principle of Rochdale Pioneers. As the cooperatives have limited sources of finance, inadequate funds to manage business activities, consumers' cooperatives should work on 'cash and carry principle'. It also avoids botheration for collecting dues due to the credit sales. But later on this principle was discarded and it became outdated. The ICA Commission 1966 did not adopt it as a principle of cooperation but it emphasized its importance as a guide to business policy. It is significant to note that some countries like Sweden, Finland, Switzerland with highly successful consumer cooperative follow cash trading principle.

2) Political and Religious Neutrality: This is also

one of the basic principles of Rochdale Pioneer which envisages that there should be no discrimination either among members or among actual members on religious or political grounds. Thus consumer cooperatives leave the members entirely free to hold their political, social and religious views.

3) Principle of Equality : The whole cooperative philosophy is based on the basic principle of equality and justice. Every member, irrespective of his shareholdings, political or religious opinions, age, sex, is treated on equal grounds. It provides proper democratic functioning. 'One-Member-One-Vote' is based on the principle of equality.