

Mongolian Cooperative Network – General Knowledge

The history of cooperatives in Europe in the 19th century

Source: German Technical Cooperation GTZ project "Promotion of organised self-help in rural areas", Ulaanbaatar, Mongolia, eMail fv.mueller@gtz-mongolia.org

Author: Julius Otto Müller, quoted from International Handbook of Cooperative Organizations, Göttingen 1994, partly revised.

1. Contemporary Conditions

The employment of the body of thoughts and concepts that grew out of the Enlightenment in the process of development of the natural sciences, technology and economics led in the last third of the 18th century to an increase in the liberal economic and social forms in the leading European nations, beginning in England. On the basis of *Adam Smith's* (1776) and *David Ricardo's* (1817) "classical national economy," the new capitalistic economic system replaced the trade regulations of the Middle Ages and the mercantilistic economic restrictions of the absolutist states. Thus, the privileged craftsmen's corporations and merchants' guilds became obsolete. However, until the second half of the century, the 'free' economic development remained the privilege of the new entrepreneurs belonging to the bourgeoisie connected with high finance. The division and mechanization of labour in the 'factory system' allowed the production of standard commodities. Due to the progress made in transportation facilities, they gained access to the (world) market so that handicrafts, small trade and agricultural work were more and more superseded within the process of growth undergone by a technologically and economically based civilization.

In contrast to the big industrialists, workers, small tradesmen, craftsmen and peasants could not draw any economic benefits from the newly acquired freedom because of usury, whether in connection with money; commodities or cattle; lack of capital; relative ignorance and exploitative working conditions.

Rational, material and secular ideologies gained ground and, due to the emphasis laid on individual human rights before obligations towards the community and the cultural heritage, led to the loss of cultural, ethical, religious and social values. Values associated with the community and with cooperation in extended families were substituted for those of the formal society, individualization and egocentrism.

The new bourgeois class-based nation succeeded, until the last third of the century, on warding off all the attempts at politically emancipating the lower classes (socialism) and at unpolitical organization through a politically neutral 'association' (common self-help) for fear of subversion. The situation of the workers appeared to be hopeless. Since the end of the 18th century, help in the form of care in social and economic emergency situations had been exclusively provided by the benevolent campaigns of wealthy classes holding humanitarian and Christian views.

2. Cooperative Concepts and their Promoters

As social reforms by the government and improvement in the salaries and the working and living conditions of the lower classes failed to appear and every attempt at politically influencing the dependent workers remained unsuccessful, intellectuals from the economically independent classes who were conscious of their social responsibility stood up for social problems. They all followed the same idea of 'emancipating work'

from the economic power of private capital with the objective of improving the economic and social situation of those who, until then, had lived in straitened circumstances by encouraging them to form their own capital with the help of the cooperative association. The instrumental concepts for realizing this idea then followed two basically different conceptual approaches:

- that of the free cooperative association based on self-help, self-responsibility and independent organization for the autonomous formation of savings from below, while remaining neutral as far as politics and religion are concerned; and
- that of a politically regimented cooperative association within the conceptual context of theoretical and idealistic socialism.

Both conceptual approaches aimed originally at the participation of the working classes in the ownership of inputs and, in the long run, at the co-operative organization of the overall economy and society and, thus, at the establishment of a new economic and social system. 'In a peaceful struggle,' the power of capital was to be gradually undermined and broken. Concepts orientated towards practice for implementing this plan were concerned at first, around the middle of the century in England (*Cooper and Howard 1844*) and in Germany (*Schulze-Delitzsch 1850*), with satisfying the immediate individual needs through the formation of savings in small self-help groups of members carefully selected according to economic capacities, sociability and discipline, while safeguarding the personal and economic autonomy of the participating individual economy. They were to stand the test, at first on a small scale level, as preliminary stage for competition with large-scale industry as foreseen for the future for the whole nation.

In France, influenced by the strongly restricted personal freedom since the Revolution in 1789, the spiritual advocates of the cooperative movement chose the concepts of collective forms of cooperation. They did not aim at satisfying urgent needs nor at selecting capable members and failed, with notorious exceptions, on account of the too high socio-ethical and socio-theoretical demands for solving the social problems in terms of a socialistic economic system orientated towards the common welfare (*'Co-operative Socialism'*).

The development of creative ideas cannot be severed from the individuals who conceived them and who, as their promoters, transmitted them personally, theoretically or practically to the people concerned. The spiritual concepts for attenuating and dealing definitively with exploitation and social misery are rooted mainly in the ideal of humanity that originated from the philosophy of Enlightenment and from classical literature and had a strong influence on the population's education (education making them autonomous individuals of a humane disposition).

In the meantime, the forerunners of the Christian and socialistic social reform urged the solution of social problems by organizing economically autonomous cooperative communities or production groups. In France, it was only during the first third of the 19th century that *Saint-Simon* came forward as the precursor of a cooperative socialism of Christian Catholic inspiration within the framework of an economic rather than political public order to be organized on a brotherly basis. *Buchez*, his follower, demanded a just distribution of the economic resources and products through productive cooperatives and the regulation of production and distribution by a central bank. With exceptions, the organization of free productive cooperatives failed. In England, Christian socialism goes back to *King* who, as a doctor of the poor and pedagogue in Brighton, organized consumers' co-operatives supported by Christian brotherly love, self-help, and moral as well as economic discipline. His journal, 'The Cooperator,' 1828-30, embodied the first comprehensive cooperative theory. His thoughts mark decisively the cooperative movement in Europe which, based on self-help, later became so success-

ful in economic terms. As of 1848, the Christian-Protestant lawyers, theologians and members of parliament from Lincoln's Inn in London (*Ludlow, Maurice, Hughes, Kingsley, Vansittart Neale*) were associated with *King's* work, *Saint-Simon's* and *Buchez's* ideas. They conducted a campaign of enlightenment and reform for civil and parliamentary participation in the 'proletarian attempts' at social reform and demanded the education of workers and craftsmen as secondary promoters of free consumers' and productive cooperatives. ('Society for promoting working men's associations' 1850, working men's colleges' 1853).

The different ideas of large settlements of productive co-operatives put forward by *Owen* in England and the USA (since 1817) and *Fourier* in France (*familisteres, phalansteres*, around 1830) remained a utopia. In the course of the socialistic takeover of power in 1848, *Blanc* failed when the government established numerous cooperative 'national workshops.'

The concept of free self-help cooperatives gained ground at first in England on the basis of former positive and negative experiences. *Cooper* and *Howard*, two earlier followers of *Owen*, the spiritual leaders of the Equitable Pioneers of Rochdale (1844), organized the world-famous consumers' shop of poor weavers ('penny capitalists') in view of satisfying the most urgent needs through absolute self-help (*Rochdale Pioneers*). To the rules of cooperation prescribed by *King*, they only added one which is decisive for the great economic success: the distribution of refunds after having made use of the cooperatives' services, connected with the payment of half dividends to non-members. Thus, after having been strengthened by a small elite group, a sufficiently large group of followers and their fidelity to cooperation became possible: the conditions for a rapid growth from small to large capital without injuring competition. The concept of polyvalent formation and education of the members so that they achieve self-responsibility thereby proved to be indispensable.

In Germany, the main spiritual impulses, in addition to the autonomous ideas based on humanitarian or Christian ethics and economic solidarity (*Schulze-Delitzsch* since 1850 and *Raiffeisen* partly as a follower of *Schulze-Delitzsch* since 1864), came mostly from England, but also from France. Thereby, the people understood how to let themselves be inspired by the positive experiences made by the other movements. In that regard, the decisive agents since the middle of the century are *Huber* and *Pfeiffer*. Spiritual relationship existed between the individual, not only contemporary holders of ideas and their schools, often beyond national frontiers.

As of the 60s, in France and in Germany, the concept of a cooperative intervention, patriarchally regimented, in view of solving the workers' problems was revived by government and clerical-conservative as well as leftist socialistic promoters. Associated with the interests of the government's and the Church's policy and complemented materially by financial aid as external help without the incitement to form capital under self-responsibility, this idea should be understood as the never-tiring theoretical and practical attempts towards forming independent cooperative groups from below

3. Cooperative realization

Differences in the respective histories of countries and concepts and in the cultural characteristics, especially of the political constitution, have, in the individual countries, marked the development of specific forms and types of cooperatives.

Cooperative pioneers and their followers saw to the implementation of the concepts for organizing free cooperatives and adjusting them to specific objectives and requirements, or they created the basis for legal security and economic stabilization. Simultaneously, they imparted technical and human education and placed the movement on

an indispensable, ethical basis which took poverty, ignorance and dependence into consideration.

In the individual main countries of Europe (England and Germany), in the 60s of the 18th century already and up to the first third of the 19th century, free associations, of the cooperative type, of workers, craftsmen and farmers (workers' and farmers' mills, bakeries, consumers' shops, loan fund were formed and agricultural corporations still existed. They failed, however, due to the lack of legal protection, to fraud, closing down of members' circle, lack of economic advantages and transformation into private capital associations. Caritative and saving associations in the urban and rural areas in England and Germany did not find, sometimes until the 60s of the 19th century, the way to self-help and ceased to exist. In France, on *Bucheze'* initiative, quite a large number of free workers' production cooperatives, which, simultaneously, had to serve political purposes (financing new foundations and promoting socialist ideas) are established. After the failure and the prohibition of the nations' socialistic productive cooperatives (*Blanc's* "National Workshops"), in 1849, only a few productive cooperatives based on self-help according to *Bucheze* managed to continue to exist -some until the war in 1870 -because they remained faithful to the discipline of strict self-help and the just distribution of profits. However, as a result of the high losses incurred during the war, they failed (e.g. "Gold workers co-operative"). Moreover, the free cooperative development was artificially retained by the conservative government until 1871.

This period of awakening of the free co-operative movement was followed by the period of its economic strengthening and advancement with the foundation of the Rochdale consumers' associations (1844) and of the first craftsmen's co-operative by *Schulze-Delitzsch*(1849). On the political grounds already mentioned, it remained restricted to England and Germany. In contrast to England, it was only after 1860 that a large number were founded. In England, due to the urgent workers' problems there, the co-operative development was concentrated on the type of consumers' cooperatives. Under the influence of the liberalizing laws, forms of vertical integration characteristic of cooperatives came into life already in 1866. The movement grew rapidly and remained stable (1844: 22, 1866: 5,236 members; a turnover of about £300,000 with a dividend of 10-12%). The foreseen institution of self-sufficient settlements in view of undermining capitalism became superfluous with social and cooperative legislation. The Christian Socialists gained great importance by organizing cooperative education, publications, legislation and associations. However, their own attempts to establish consumers' and productive cooperatives fail above all as a result of too generous external promotion with initial loans.

In Germany, the consequences of industrial development affected craftsmen and small farmers in a particularly hard way. Therefore, the savings co-operatives for craftsmen (in the beginning for farmers as well) established under *Schulze-Delitzsch* were based on absolute self-help and self-administration and had unlimited liability for capital taken up from the free market. They had the function of people's banks. The craftsmen's co-operatives and people's banks movement was strongly supported by journalistic activities ("Innung der Zukunft" since 1853, then, "Blätter für Genossenschaftswesen" edited by *Schulze-Delitzsch*). In the 'lawyers' societies', *Schulze-Delitzsch* organized advisory, guiding and auditing institutions for primary co-operatives and created the first secondary co-operatives for cash adjustment, the easy purchase of raw materials and sale of commodities (Allgemeiner Verband der auf Selbsthilfe beruhenden Erwerbs- und Wirtschaftsgenossenschaften 1859, General Association of Industrial and Provident Societies based on self-help, as the precursor of the German Co-operative Association). Thus, the third period, that of economic and social consolidation, was introduced at a later stage than in England. Since 1863, *Raiffeisen's* loan and savings banks

turned out to be more appropriate for the long-term credit requirements of small and medium farms. After fifteen years of promoting rural loans through benevolent associations together with the wealthy rural population (savings and insurance associations for medium and upper strata), he became the pioneer of co-operative self-help for the agricultural sector that lagged behind economically and socially. For him, Christian charity was as important as economic development. This is characterized by the accumulation of an indivisible association fund for Christian and welfare purposes. The scope of activities of his cooperatives was limited to members personally known to one another from a vicarage or a civil community. In the beginning, this self-help was supplemented by government aid (borrowing credit from county banks). In this case too, unlimited liability applied at the initial stage; it induced discipline in the strict selection of beneficiaries and in dealing with capital (moral and economic creditability). *Schulze-Delitzsch* and the legislation he provided (Prussia 1867 and the German Reich in 1889) forced *Raiffeisen*, the father of the poor farmers, to allow the farmers to participate in the autonomous formation of capital (Central Credit Bank, in 1876; lawyers' societies according to *Schulze-Delitzsch's* model, in 1877). At a later stage (1890), *Haas* efficiently reorganized the economy of a complicated secondary organization for advising, guiding and providing capital according to *Schulze-Delitzsch's* principles.

In addition to *Raiffeisen's* activities, there had been, since the 60s, another movement of co-operative purchasing associations for small farmers ("Agricultural Consumers' Co-operatives") later successfully conducted by *Haas* in terms of *Schulze-Delitzsch's* cooperative policy. Consolidation took place as of 1883 (20 associations and 1319 co-operatives in the General Association of the German Agricultural Cooperatives in 1890; the Reich Association resulting from the union of *Raiffeisen's* and *Haas's* associations, 1903-1905). In 1885, the movement based on *Schulze-Delitzsch's* consisted of 922 loan associations with 466,575 members, 1.5 million Mark of credit accommodation, 1.6 million Mark shares, 19.4 million Mark reserve funds, 121.9 million Mark savings and 6% dividends. In 1885, *Raiffeisen's* movement consisted of 245 associations (423 in 1888) with 24,466 members. In 1822, the turnover was 141,293 Mark. Thus, the movements in Germany developed into special cooperative institutions orientated towards the credit needs of handicrafts and of the farmers. After initial stagnation or failure, a large number of efficient consumers' and housing construction cooperatives for workers, employees and functionaries were established only during the phase of consolidation, after 1870. It was only much later that transport, machine, bookkeepers' and fisheries associations were added to those. The attempt to found consumers' cooperatives for workers was systematically opposed over quite a long period under the influence of the communist and socialist policy in the wake of *Marx*. They only come to a head after the socialist congress in 1889.

Cooperatives were founded by conservative patrons under conservative governments tolerating, in France, in 1863 (*Napoleon III*), *Cabet's* socialist interests and, at the same time, *Lassalle's* in Germany (*Bismarck*). However, they failed because of lacking self-help and self-responsible force of assertion. Bishop *v. Ketteler's* cooperatives, promoted on the basis of clerical welfare, also failed for similar reasons in Germany in 1863. Further attempts made by patrons to establish cooperatives failed in France, in 1864 under *Napoleon III*, and in 1893, in Germany, under *Wilhelm I* (failure of numerous foundations during the initial phase of the 'Prussian Bank'), since 1895 as a result of tutelage and financial aid from the government. In Ireland, finally, Horace Plunkett had great success in establishing since 1889 agrarian cooperatives jointly with an effective agrarian structural reform.

The 'International Co-operative Alliance' was founded, in 1895, on the initiative of the English cooperative overall organization. The decisive influences of a strategy for the

secure formation of capital originated in England and spread over the great majority of other European countries, especially in the consumption sector. In Germany, there arose further organizational impulses to found cooperative associations for handicrafts and agriculture. At the end of the 19th century, they spread as a rule more strongly than the English movement to Switzerland, Italy, Russia and the Scandinavian countries as well as to India and, later on, to Burma.

4. Conclusions and precepts

In the 19th century, as a result of the creation and development of 'free cooperatives', the practical implementation of concepts for the autonomous and conjointly liable organization of new cooperative forms of economy was successful in the dispute between the power of capital and the dependent labour force that was at its mercy. These ideas were presented by theoretical innovators and spiritual leaders belonging to the upper, educated strata within the context of the overall cultural trends of the period, adjusted to the requirements and transmitted, with a charismatic power, to the poor to be applied by these on their own responsibility in a disciplined manner. Ethical and religious dimensions contributed substantially towards creating, strengthening and perpetuating the free cooperatives. The neutral - in terms of policy and religion - application of Rochdale's 'golden rules' was pioneer work. Therefore, the indispensable conditions of the creation and successful existence of co-operatives in the 19th century are summarized as follows:

- According to the economic capacity of social and ethical qualifications, selected members rapidly assume the roles of their promoters as teachers, leaders and administrators of co-operative activities.
- Promotion and self-help not by order, but rather against the will of the national government in order to maintain the independence from above and outside.
- Organization of an easily controllable, socio-economically strong primary group from below. Establishment of secondary organizations, in principle at a later stage, on the basis of functioning cooperative primary groups.
- Economic solidarity on account of unlimited long-term liability for loans as the basis for social solidarity while adjusting the objectives and services of cooperation to the requirement.
- Flexible adjustment of the objectives of cooperation to the specific contemporary and local-cultural situation.
- Democratic self-organization and absolute autonomy in all economic activities.
- Strict self-discipline and loyalty in applying the economic and social regulations (statutes) of cooperation.

These seven elements characterize the open secret of European cooperatives known all over the world on account of their great economic success. This means that the history of cooperatives in the 19th century shows that economic and social success can only be achieved where cooperation originates out of a movement to meet common requirements, widely disclaims external support and guidance, and simultaneously courageously enforces the rules of strict self-help, self-responsibility and self-administration.