

New Mutualism  
**In from the Cold**  
the co-operative revival and social exclusion  
by  
Ian Hargreaves

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The Co-operative Party is the political wing of the Co-operative Movement. It promotes the application of Co-operative Principles through elected representatives at all political levels.

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## **Foreword**

I would like to welcome the publication of this third pamphlet by the Co-operative party as another useful contribution to the debate on New Mutualism.

Ian Hargreaves argues that co-operatives play a growing role in the attack on social exclusion by bringing affordable and healthy food to places that lack good shops, by providing basic financial services for people who are unbanked and making a growing contribution in housing and care of the elderly. Ian calls on co-operatives themselves to be competitive, form effective partnerships and have well organised communication. He also makes recommendations for the Government to consider.

Combatting social exclusion is at the very heart of the Government's agenda. We are already learning from the inspiring example of change in which community and co-operative organisations are involved across the country. The 'quiet revival' of mutualism will continue to provide us with practical lessons and policy ideas. I shall look forward to seeing how the ideas in this pamphlet develop.

**Patricia Hewitt MP and Economic Secretary to the Treasury**

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Before that, he was one of Britain's most experienced editors, having edited the New Statesman and the Independent. He was previously Deputy Editor of the Financial Times and in the late 1980s, Director of News and Current Affairs at the BBC.

His other interests include politics and policy formation. He has been involved with the think tank Demos since its foundation and currently chairs its board of trustees. He is also a member of the board of Greenpeace UK and the New Statesman and a member of the advisory councils of the Centre for European Reform and ERA, the regional development think tank.

Ian Hargreaves has written widely about the third sector, including an essay *A step beyond Morris Dancing: the third sector and the third way* in *Tomorrow's politics*, a Demos collection published in late 1998. He is married to Adele Blakebrough, who is Director of the Community Action Network.

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## Preface

Like a generation of post-war kids, I was raised on the co-op dividend, the regular cash windfall which put shoes on my feet and occasionally yielded other, more exciting treats. I also remember the first American-owned supermarket to arrive in our town and the start of a retailing revolution which transformed our high streets.

That revolution inflicted huge damage on co-operative retailers and is largely responsible for a widespread sense that co-operatives are part of yesterday's story, belonging to a world of brass bands, smog and, for me, vivid memories of the triumphs of Burnley Football Club. In the course of researching this pamphlet, I have confirmed that this impression is false. It is true that co-operatives have endured turbulent change, but so too have investor-owned companies. It is true that co-operatives have had to re-examine the way they apply their principles, but so too have investor-owned companies been obliged to re-consider their relationship with other stakeholders and their wider social responsibilities. The fact is that the co-operative movement remains globally vigorous, with 700 million co-operators in a hundred countries. Even in the most aggressively free-market economies, like the United States, mutual forms of ownership are strong and getting stronger in housing, education, welfare, utilities and financial services. In every country, we have bumped against limits of Big Government and the Market Knows Best.

Britain's co-operative revival is a quieter phenomenon, but one with great significance for the central theme of this pamphlet - the attack upon social exclusion. Co-operatives are playing a growing role in every aspect of this effort. They are bringing affordable and healthy food to places which otherwise lack it. They are providing basic financial services for people who are otherwise unbanked and unbankable. They are making a growing contribution in housing and care of the elderly. They are active in rural areas as well as in cities. They are pioneering new forms of ownership of services previously run by local authorities.

This pamphlet sets out to examine the congruence between the spirit and tradition of co-operation and the Third Way political philosophy of New Labour. When he speaks of the importance of self-help and the accumulation of social capital, Tony Blair is speaking the language of the co-operative movement. From their very beginning, co-ops have preached and practised responsibility and solidarity beyond the boundaries of individual or even local community self-interest. Co-operatives insist upon an active citizenry in a radically democratic polity.

The question is, what can be done to make the co-operative revival more vigorous? For co-operatives themselves, three points emerge. Co-operatives will not succeed unless they provide goods and services of a quality and price comparable with other suppliers; nor will they prosper by insisting upon narrow points of ideological difference. Co-operatives need, like all other organisations, to form effective partnerships beyond their own circle. The third point is that democratic accountability demands vigorous, well-organised communication. Bogus or sclerotic democracy may be worse than no democracy at all.

For government, this pamphlet has one central recommendation: that it address seriously the question of forms of ownership. Its current, pragmatic view that what works is best won't do, because it allows government to duck the responsibility of thinking through what would amount to an appropriate and fair legal and fiscal framework for different types of institution. Huge amounts of effort have been expended in the last half century to refine the legal and fiscal context in which investor-owned companies operate. No government has taken the third sector seriously, leaving co-

ops to plead in vain for a Co-op Bill and charities befuddled in a legal world which is rooted in Elizabethan statute.

I call for a Royal Commission on Ownership not because I am in favour of endless royal commissions, but because this is a subject which requires the depth of intellectual analysis and width of public debate that only this type of inquiry can offer. We need to think through the nature and purpose of different forms of ownership, if we are to have a healthy, job-rich economy and a coherent society.

Evidence that the government confronts this problem on many fronts is everywhere. It explains ministerial confusion about the railways and London underground. It offers insights into the strengthening of community ties for the health service - why not GP Co-ops run by the doctors and patients? And it promises new approaches in education, where Britain is trapped in a game of bluff between central and local government, when what is needed is new energy and imagination of the kind provided in the United States and continental Europe by charter schools - community-based and in some cases community owned. A fertile area for co-ops? I should think so.

A commission would also help to create the right political and intellectual context to deal with more pressing matters. Why is there so little practical support for housing co-operatives, when the evidence suggests that they are both popular and highly efficient? Why have so many regulatory barriers been placed in the path of credit unions and other suppliers of microfinance for communities. This pamphlet proposes a network of social investment banks, in a partnership between the state, private business and the third sector. It would be hugely productive.

The argument in these pages will, I suspect, disappoint and probably even greatly irritate some co-operators, who will find it insufficiently partisan. My reply is that My Co-operative Right or Wrong is out of tune with the times. What Britain needs is the spirit and experience of the co-operative movement applied widely and in a more flexible, innovative and imaginative manner. I hope that this pamphlet will play a small part in bringing that about

**Ian Hargreaves**

**March 1999**

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## **In from the Cold the co-operative revival and social exclusion**

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Social exclusion was not a term known to the Rochdale Pioneers, but its core symptoms certainly were. Unemployment, poverty, poor health, bad housing, a filthy environment, lack of political clout and life expectancy of 21 years, way below the average for England as a whole, were among the difficulties faced by those buffeted by the instability of the mid-19th century textile industry.

One hundred and fifty years later, the defining marks of social exclusion are remarkably similar, except that today we understand better how complex disadvantage is handed down from generation to generation and how difficult it is to break the cycle of deprivation.

In Britain today, the poor still die younger, much younger, than the prosperous. Health standards may be generally rising, but inequalities in health are growing wider[1]. According to definitions used by the United Nations, 15 per cent of British people live below the poverty line and more than a fifth of adults are functionally illiterate. For the five million families where no-one has a job, the pattern of disadvantage and disconnection is chronic to the point where, in the 1980s, these people were said to belong to an “underclass” - with the implicit suggestion that their condition was both predestined and unalterable.

For this large minority of the British population, social exclusion means lack of access to those things which are considered essential to citizenship in an advanced democracy. In addition to the inequalities which blighted the lives of Victorian textile workers, today we must also take into account new forms of inequality caused by depleted social and family networks, exclusion from financial services and the widening gap between those who are rich in access to information through the new media and those who are poor.

Viewed in this light, social exclusion takes on a set of meanings not confined to the problems experienced by the most disadvantaged. If it is true that healthy societies need a rich texture of institutions and voluntary connections to bind us as citizens, then we must be attentive to any change which diminishes our social capital and alive to every opportunity to increase it. So, the American sociologist Robert Putnam [3] has argued that the voluntary social isolation experienced by those who watch too much television erodes social capital, as does the growing preference of Americans to “bowl alone” rather than in leagues. The historian of human relationships Theodore Zeldin has gone further, arguing that “the term social exclusion applies not only to the poor, but to all whose mind-set is confined to a single profession” [4]. Using evidence from the UK, Peter Hall [2] has contested Putnam’s argument about the scale of the disintegration, finding that the level and quality of voluntary association in Britain remains high, but he draws attention to the extent to which participation in communal activity is sustained by the activities of the better educated i.e the more prosperous. In other words, the socially excluded are even excluded from participating in remedial action. Social exclusion is a problem with a built-in accelerator, especially so in a time when those who operate in global labour markets - like top entertainers and investment bankers - reap financial rewards beyond the imagination of those who can only sell their labour locally.

The Rochdale Pioneers’ response to the social exclusion of mid-19th century Lancashire was in part political - many of the early co-operators were also active in Chartism and other radical political movements. But it was also local, based upon the instinct that in your own town, your own community, the solution to immediate problems of work, finance, housing, family instability and self-respect lay within your own grasp; that the only solutions to trust are those which you design yourself and for which you take responsibility. This is the co-operative spirit: men and

women taking charge of a situation, answerable to each other, working through democratic structures of accountability.

The Rochdale men formed their co-operative - it was not the first, but the first to enjoy such success - to supply decent food to each other at honest prices at a time when some factory owners had perfected the art of reclaiming from their employees most of their wages in rents and through purchases at the company shop.

The founding principles of the pioneers - voluntary and open membership, democratic control, equitable distribution of profit and limits on the rewards to suppliers of capital - inspired a global movement which is still growing rapidly, especially in Asia where in the last half century the combination of closely knit communities shaken by rapid industrial change has had much in common with the industrial societies of northern England a hundred years earlier.

Today, there are an estimated 700 million co-operators in 100 countries and a replica of the original Rochdale Pioneers' Toad Lane grocery shop stands on the campus of the Kobe Society Co-operative College in Japan. Contemporary co-operation encompasses not only food production and retailing but banking, insurance, computer services, media, housing, health, education, leisure services - indeed just about every imaginable sector of the economy.

Yet this picture of dynamic growth and innovation is hardly the image most people in Britain have of co-operative organisations today. Some of Britain's best known co-operative enterprises, most visibly its co-operative shops, entered a period of decline in the middle years of this century, reaching crisis point in the 1970s, as they failed to adapt to changes in consumer taste and new competitive challenges. Around the same time, high profile and unsuccessful attempts were made to save organisations in doomed industries, like the Meriden motor cycle business, by turning them into worker-owned co-operatives. The image of co-operation duly became associated with decline; with struggle against insuperable economic and industrial odds. As a result, the potential for co-operatives in the context of the refreshed centre-left politics of New Labour has been insufficiently understood.

The purpose of this pamphlet is to repair that neglect: to describe the role co-operatives are already playing in the battle against social exclusion; to examine their strengths and weaknesses and to re-assess their potential. To what extent are the enduring Rochdale co-operative principles of quality goods made and distributed through institutions based upon democratic governance, open membership and common ownership valuable or even viable today? Why does the form of ownership matter? What place is there for institutions committed to educating their members and contributing to the wider health of the community? If, as I will argue, there is great need for such organisations, what do others, including the government, need to do to maximise the potential of co-operatives?

## **New Labour and social exclusion**

The phrase “social exclusion” formally entered the lexicon of British politics on August 14, 1997, when Peter Mandelson, then Minister without Portfolio, announced to a meeting of the Fabian Society the government’s intention to set up a “Social Exclusion Unit” in the Cabinet Office to co-ordinate thinking and action across government. Mandelson called it “the most important innovation in government we have made since coming to office.” Its work, he said, should be judged over a ten-year timescale, after which “one of the fruits ... will be that Britain has become a more equal society.” Given New Labour’s nervousness about committing itself to any form of egalitarianism beyond equality of opportunity, this was a significant statement, though not one which has satisfied critics, such as Lord (Roy) Hattersley, who has continued to argue that the whole agenda of social exclusion is a distraction from the straightforward and achievable policy of increasing welfare benefits for the poorest citizens in a period of relative economic success.

When the Prime Minister formally launched the Social Exclusion Unit in December 1997, at Stockwell Park School in Lambeth, he said that social exclusion “is about income ... about prospects and networks and life-chances. It’s a very modern problem, and one that is more harmful to the individual, more damaging to self-esteem, more corrosive for society as a whole, more likely to be passed down from generation to generation than material poverty.”

The unit, he said, would be the agent of a new coherence in government, enabling it to focus resources and attention upon the most intransigent, pan-departmental and multi-faceted problems, such as drugs, high crime areas, chronically bad housing and ingrained educational underperformance. Government, the Prime Minister said, would “work in a more coherent, integrated way, across departmental boundaries and with all the agencies - public, private and voluntary - that can help turn things round.” Then, using language very familiar to the co-operative movement, he argued that: “this isn’t just about compassion. It’s also about self-interest. If we can shift resources from picking up the costs of problems to preventing them, there will be a dividend for everyone.”

Since then, the Social Exclusion Unit has tackled truancy and rough sleeping and has set out to produce a complex matrix of approaches to improving conditions on Britain’s worst housing estates. As part of its work, the unit has set up 18 policy action teams, covering themes such as housing management, shopping, jobs, financial services, information technology and schools, drawing together ministers, civil servants and a wide range of experts. It is also commissioning a series of “pathfinder projects” as part of the £800m New Deal for Communities.

In his first major speech of 1999, Tony Blair addressed the annual conference of the National Council of Voluntary Organisations, and again wove deeply into his text the language of co-operation.

Re-affirming that turning the tide of social exclusion would be “a ten year project”, he acknowledged that “there are still far too many areas where people have no job, no shop, no bank account, no links to the mainstream economy. Giving them access to the opportunities that others take for granted requires us to make a new connection between economic opportunity and social renewal. “We have always said that human capital is at the core of the new economy. But increasingly it is also social capital that matters too - the capacity to get things done, to co-operate, the magic ingredient that makes all the difference. Too often in the past government programmes damaged social capital - sending in the experts but ignoring community organisations, investing in bricks and mortar but not in people. In the future, we need to invest in social capital as surely as we invest in skills and buildings.” He went on to refer to the growth in credit unions,

microfinance providers, local exchange trading systems and community development trusts. And in appealing for partnership between government and local communities, he attacked the political left for “belittling voluntary activity, seeing it as a poor alternative to direct state provision.” The Labour Party, he said, “at times forgot its own roots in self-help, friendly societies, co-operatives and voluntary organisations, and the insights of Robert Owen and William Morris.”

Meanwhile, elsewhere on the party political spectrum, William Hague has been working through his ideas on “compassionate conservatism” - tapping into a rich vein of thinking on the right which also appeals to the principles of self-help and mutualism.

## Social exclusion and the Third Way

It is clear then that so far as the current government is concerned, the co-operative tradition is very much part of the answer to social exclusion. What is equally clear, however, is that Tony Blair's approach to social exclusion, as to other aspects of policy, is eclectic and pragmatic, working from the starting point that any ideology will be judged by its capacity to deliver practical solutions. This presents others - including voluntary organisations and co-operatives - with a clear, sometimes painful challenge: are they prepared to de-emphasise issues of ideological purity in order to take part in "the project"?

It is this "beyond left and right" theme, which has emerged since Labour's general election victory in May 1997 under the banner of the Third Way. Although often criticised for its vagueness, critics tend to miss the point that the very breadth of the Third Way is intended to signify the reach of its political appeal and the government's ideological promiscuity. The result is a political philosophy which bulges untidily at the seams, but whose inclusiveness offers multiple points of entry. The Third Way aims to bring the widest possible political coalition to focus upon the issues of highest priority and the deepest intractability, such as the reform of the welfare state, the revival of British public education and the assault upon social exclusion.

Blair sees himself, along with centre left leaders around the world defining politics for a generation in which more Big Government and more reliance upon market forces are discredited. This is the basis of New Labour, as it is of the American New Democrats, though it is a position still in some creative tension with mainstream continental social democracy.

In his book *The Third Way, the Renewal of Social Democracy* [5], Anthony Giddens argues for a version of Third Way thinking calculated to appeal to the history, culture and achievement of continental social democracy, aiming to draw it towards a more liberal future. He sees social exclusion as a principal driver of inequality and so a fundamental test for the new centre left's politics.

He writes: "inclusion refers in its broadest sense to citizenship, to the civil and political rights and obligations that all members of a society should have, not just formally, but as a reality of their lives. It also refers to opportunities and to involvement in public space. In a society where work remains central to self-esteem and standard of living, access to work is one main context of opportunity. Education is another."

For Giddens, it is not enough to speak of a politics of equality based only upon widening opportunity - an overhang, in Giddens' view, from discredited neo-liberal thinking. Policies aimed at reducing social exclusion must tackle not only the forced exclusion of those suffering multiple social disadvantage but also "the revolt of the elites: a withdrawal from public institutions on the part of more affluent groups, who choose to live separately from the rest of the society .... limiting the voluntary exclusion of the elites is central to creating a more inclusive society at the bottom."

Exclusion, Giddens maintains, is "not about gradations of inequality, but about mechanisms that act to detach groups of people from the social mainstream." He proposes, citing a distinction drawn by the American political journalist Mickey Kaus between "economic liberalism" and "civic liberalism", a zone of action for public policy to rebuild and revive 'public space'; government must take responsibility for nurturing the voluntary institutions of civil society, neither interfering too much and crowding them out, in the manner of the old left, nor allowing them to sink or swim, in the manner of Thatcherite neo-liberals.

Following this argument through, “conventional poverty programmes need to be replaced with community-focused approaches, which permit more democratic participation as well as being more effective. Community building emphasises support networks, self-help and the cultivation of social capital as means to generate economic renewal in low-income neighbourhoods. ... Reducing benefits to force individuals into work pushes them into already crowded low-wage labour markets. Community building initiatives concentrate upon the multiple problems individuals and families face, including job quality, health and child care, education and transport.”

The interface between this civic liberalism and the co-operative tradition could hardly be clearer; both assume co-existence with a capitalist economic system, but seek to challenge its shortcomings. I have argued myself that for the Third Way, the nurturing of the place of the Third Sector is crucial if the new centre left is to have the energy and machinery on the ground to effect change through a sufficiently rich ecology of institutional forms - beyond both big business and big government [6].

In comparing the position of the first Thatcher Government in 1979 and the first Blair government in 1997, it is possible to see that both were in search of a radical agency to give effect to their core political thinking - in Thatcher's case the release of market forces, eventually catalysed by the privatisation programme. For Blair, whose core political belief is that “individuals prosper in a strong and active community of citizens,” the need is for a rich array of institutional pathways to deliver his vision. The Third Sector, incorporating voluntary and community groups, and including co-operatives, meets this need. What privatisation was for Margaret Thatcher, the Third Sector can be for New Labour.

## Whatever happened to the Co-op?

When you talk to people in the co-operative movement, you often sense a deeply ingrained frustration. Here is a movement which has triumphed on a global scale, but which is perceived to be old-fashioned and marginal. Working from principles which, are, in essence, unchanged from the days of the Rochdale Pioneers, co-operation represents a huge force for social and economic change on every continent and within every area of economic enterprise [7]. The International Co-operative Alliance continues to re-work and refresh the movement's statements of identity and principles [8] on the basis of a debate which draws in co-operators from around the world. According to the most recent iteration of this process, a co-operative is defined as "an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise."

British co-operators play a leading role in this international process, where their achievements are more securely recognised than they are at home. Britain's retail co-operative societies, have revenues approaching £8.5 bn a year and employ 120,000 people. In banking and insurance, co-operators employ another 15,000 people and hold assets in excess of £23bn. And that does not count the 530 farm co-ops (turnover more than £7bn), or the 1,500 worker co-operatives, 1,500 community co-operatives, credit unions and housing co-operatives. In politics, the Co-operative Party has 25 MPs, 10 members of the House of Lords and six MEPs. The Party's 1997 general election manifesto laid out a coherent and well-focused appeal for clearer, more sustained support for the social economy, stronger commitment to community regeneration and better protection for consumers. In practice, however, the Co-operative Party's message and identity tends to be submerged beneath that of the Labour Party, with which all Co-operative MPs share their affiliation.

It is, however, undeniable that in Britain, and in many other countries in Europe and North America, co-ops have faced serious difficulties in the last half century. Co-operative retailers were often slow to re-organise in the face of changing consumer tastes and new sources of competition. Sometimes, the very democratic nature of co-operative structure contributed to managerial ineffectiveness, too often democratic principles were negated by rigid managerial hierarchies and poor communication, which made some co-ops less responsive to their employees and consumers than comparable investor-owned companies.

Between the late 1950s and the mid-1990s, the co-op share of the UK retailing market fell from 11 per cent to a relatively stable 4 per cent. The number of societies has dropped from almost a thousand to 46 and the number of shops is down from 30,000 to 4,600. But at 6.4 per cent, the co-operatives' share of the food market still makes them one of the UK's big five retailing groups and in some sectors, there has been strong growth. For example, the Co-op's travel agencies have increased their share of holiday markets from almost nothing to 10 per cent in the last 20 years and the co-op provides one in four British funerals.

Johnston Birchall, the historian of the co-operative movement, comments that the very fact of survival is remarkable given that the co-ops compete "with probably the best multiple retailers in the world .... as an example of organisational survival in a turbulent environment, it is probably without parallel; private firms with a tenth of the movement's problems would long ago have gone out of business." Against that, it might be said the best multiple retailers in the world have managed to operate in a marketplace where profit margins are comfortable by European standards.

But Birchall is right to draw attention to the fact that the last 40 years have also been a period of astonishing turbulence for shareholder-owned, profit-maximising companies too. Of the 100

companies which formed the Financial Times/Stock Exchange top 100 companies when it was formed in 1983, only 38 remain there in anything like their previous form and of these that remained, several have been transformed by merger. Missing in action are once illustrious names like Britoil, Ferranti, Fisons, Midland Bank and Racal. The fact that the investor-owned company has established itself as the globally dominant form does not alter the fact that, like co-operatives, its story is one of violent change, accompanied by bouts of serious soul searching about mission and the relationship between ownership and performance.

There is, of course, an issue as to whether the co-operatively owned business gains or loses from the absence of the pressures associated with ownership by investors. It cannot be denied that profit-maximising behaviour in the context of an information-rich marketplace like that of a stock exchange creates an environment in which companies must strive against each other or be destroyed, their activities judged minute by minute in globally interconnected financial markets. Nor can it be doubted that consumers have reaped large benefits in terms of product quality and price from this process.

But it is also true that in the 1990s, there has been growing concern about the short-termism of these unabated market forces, which have contributed to inadequate investment levels, excessive rewards to shareholders and top executives and to waves of mergers, the majority of which have failed to produce measurable benefits. Investor-owned corporations have also, rightly, been criticised for failing to recognise the interests of a wider group of stakeholders and have lagged behind co-operatives in responding to environmental and social issues. This reflects the fact that the investor-owned company, focused solely upon maximising shareholder return, is frequently blind to the longer term external costs its activities impose upon others. Much of the discussion of regulating industries like transport, energy and water has revolved around trying to redress this balance [9].

Co-operatives, because they do not have to meet the short-term expectations of investors, nor distribute competitive dividends, are able to concentrate upon longer term strategic issues and to avoid compromising quality or the conditions in which their employees work. Co-operatives also are built, by definition, upon relationships of trust between suppliers and customers and between managers and other employees. These qualities are very much the core virtues of the new knowledge economy, where human capital and innovation are of supreme value and where rapid learning processes within organisations depend upon superb internal and external communication. Today's most successful companies have relatively flat managerial structures and function more like networks than the pyramidal manufacturing hierarchies of General Motors and Ford.

It does not follow that co-operatives have succeeded in becoming shining examples of this post-Fordist management approach, but it does follow that in terms of their values and their approach to business, they ought to be capable of being so. We should not be surprised that in the most dynamic freemarket economy in the world, the United States, there has been in recent years strong growth in many forms of mutual business and social services organisations, ranging from credit unions, hospitals, housing and farm co-operatives to advertising agencies, law firms and the organisations formed to create charter schools and welfare management programmes. What we need to understand better are the settings and occasions when a co-operative or mutual approach is likely to work best and when it is better to go down a route of allowing investor-owned companies to compete within the context of an appropriate regulatory regime to safeguard the wider public interest [10].

So long as co-ops can deploy their democratic structures in a way that assists rather than impedes managerial effectiveness and so long as the services they provide are competitive in terms of price

and quality with those of non-co-operative firms, co-operatives ought in principle to be a match for investor-owned firms. And that is before taking into account any of the intangible “social capital”, generated by the voluntary inclusiveness which lies at the heart of co-operation, which come with co-operatives.

It is also important to recognise that consumer co-ops, of the kind run by the Rochdale Pioneers and still very familiar on the British high street, no longer comprise the bulk of the co-operative movement internationally. By the early 1990s, consumer co-ops accounted for only 14 per cent of total individual membership of co-ops, against 33 per cent for financial co-ops, such as banks, insurance societies and credit unions. A further 21 per cent of members were in farming co-ops and 27 per cent were defined as multi-purpose, with a remaining 4 per cent in housing. In most of these non-consumer activities, growth of co-operatives has been much greater in countries other than Britain and in some areas, such as housing and health-care, Britain is still, relatively speaking, in the early stages of learning from abroad.

The present condition of co-ops in Britain, therefore, is somewhat paradoxical. It remains a large sector, but one tarnished by recent experience of decline, followed by renewed stability and, in some instances, growth. Internationally, the picture is patchy, with some countries experiencing problems of maturity and decline and others showing both dramatic growth and significant powers of innovation.

In the British context, this suggests a moment of opportunity. The co-operative movement, having lived through bad times and good, has learned to adapt. It has, notably in the retailing and financial services sector, asked itself hard questions about its comparative performance vis a vis investor-owned companies and thought through its comparative advantage and disadvantage. In the battle between mutually owned building societies - which have much in common with co-operatives - and their de-mutualised rivals, we have seen how societies must provide first class services to customers and high quality communication with their members, if they are to resist damaging takeovers, which offer financial attractions in the short term but no evidence of superior performance beyond that.

In other words, co-ops and mutuals must use the fact that they do not distribute dividends to shareholders to ensure that they distribute superior benefits to members and/or customers. This has been the route successfully followed by the Co-operative Bank, which has opened up new territory in British banking with its proscription on dealing with “unethical” firms - an action which is not only consistent with co-operative values, but which is attractive to a new generation of customers. CWS, the largest of the co-operative retailers, is applying ethical principles based around the idea of healthy food, honestly labelled and is maximising its competitive advantage in smaller and medium size stores, rather than entering further into competition with the bigger supermarket chains for out of town superstores. The strategy builds upon the strengths of the group’s property holdings, which tend to be in villages, suburbs or town and city centres, but also speaks to growing concern about remote shopping centres imposing high environmental and social costs upon their hinterland.

It is very striking that in this atmosphere, co-operators themselves have started to use more pragmatic language, to place less emphasis upon ideological purity and rigidity, to adapt in order to prosper. As Edgar Parnell comments in the introduction to his DIY guide to co-operative development, *Reinventing the Co-operative* [11], “the co-operative form of enterprise has often been hijacked by those with a political agenda and exploited to their personal advantage, or used in an attempt to further their particular cause.” Parnell, using the widest possible definition of co-operation, to include many forms of mutual organisation, goes on to make the cause for strong and

healthy competition between co-operatives and investor-driven companies because “competition is the fuel of human progress, but it is co-operation which makes the journey worthwhile.”

At the same time, those who run the larger co-operative businesses are unequivocal in their emphasis upon commercial soundness as a first principle. Graham Melmoth, Chief Executive of CWS, which owns the Co-operative Bank, the largest co-operative retailing business, the insurance group CIS and a range of other businesses, from funerals and travel services to farming, developed the theme in a speech last year to the National Housing Federation.

Melmoth noted that in the ICA definition of co-operatives cited above, the word economic precedes the word social. “Co-ops,” he said, “if they are to achieve anything, have to be successful businesses first; the economic return has to come before the social result ... Co-ops must be judged by the same criteria of effectiveness and efficiency as any other business; the social benefits, if any, are a plus.”

In that same speech, Melmoth also noted the congruence between the language of New Labour’s Third Way and the historic language of the co-operative movement, but added: “the third way is the Co-operative way of self help, although New Labour seems reluctant to admit it.” Melmoth’s frustration with New Labour is understandable, but itself risks a note of sectarianism: the point about New Labour is that it declines to commit itself exclusively to co-operation as “the third way” - rather it argues for a more pragmatic view that institutional forms should be judged by their twin ability to deliver jobs and wealth, along with wider social and community benefits.

The opportunity presented by Third Way thinking is for an end to factional argument within the Third Sector, between those who insist upon the primacy of community organisations, or the voluntary sector or the co-operative movement. When Tony Blair speaks of his desire to back “the thousands of social entrepreneurs, - those people who bring to social problems the same enterprise and imagination business entrepreneurs bring to wealth creation”, he is criticised for placing too much emphasis upon a business-like process and style and for ignoring the issue of democratic structure in organisations. Melmoth himself accuses the Prime Minister of wishful thinking and counter-quotes Anne McNamara, co-director of the Big Issue in the North: “to be a social entrepreneur you need a balance between being profit-driven and being cause-driven, you cannot lose sight of either. What really differentiates social entrepreneurs from “ordinary” entrepreneurs is caring passionately, and in the long-term, about what we are producing and about our businesses.”

This is incontestable, but it surely should not point to renewed sectarianism between social entrepreneurs, community development organisations, voluntary groups and co-ops. It was interesting to see, in January this year, the first conference organised by a new body Social Enterprise London, backed financially by the London boroughs, and formed to provide support for the social enterprise sector in London, many of them co-operatives. This event attracted 450 delegates from across the capital and was probably the largest gathering of such people since the 1970s, galvanised by the re-emergence of a London-wide political identity.

Listening to the contributions that day confirmed that what we have at the turn of this century is a re-alignment of language and purpose between centre left politicians and those who belong to the Third Sector of the economy; that language concerns community, self-help, education and economic development. Turning this congruence of language into effective action against social exclusion is a massive task, but it no longer seems impossible. For tomorrow’s co-operators, the question is how to build upon the vast legacy of their predecessors, in new times.

## Food poverty and its remedies

“Within an affluent society of plenty, food poverty is obscene. Perhaps that is why its re-appearance in the UK over the past two decades has been met with such fierce political denial.” Michelle Harrison and Tim Lang [12].

The unmistakable symptoms of food poverty in Britain are visible in the statistics of health inequality, which show that, on every front, poor people live shorter, more uncomfortable lives than the richest people. Food poverty is caused by the fact that poor people lack the money to buy the food, but it is compounded by the fact that retailers cannot see a successful business in serving them. Distant superstores, accessible only by car, are the symbol of the distance between the lives of the food poor and the rest.

Britain’s co-operative movement has its roots in food retailing, as surely as the German movement has its roots in banking and the French in agriculture. For a century, from the Rochdale Pioneers to the birth of rock ‘n roll, co-operatives were the most dynamic force in British food retailing. The principle of open, voluntary association of co-operators, distributing regular cash dividends to members, to whom their businesses sold competitively priced, high quality goods and services was a formidable formula.

The revolution in consumer tastes and retailing methods in the 1960s faced British retail co-ops with searching questions. Co-op membership peaked at 13 million in the 1960s but fell sharply in the 1970s and 1980s, as co-operative societies merged and non-viable operations closed. Today there are 46 societies, compared with 900 in the 1950s, but market share has stabilised at around 6.4 per cent in the food market. Since the unsuccessful attempt in 1997 by the entrepreneur Andrew Regan to take over the entire CWS group, CWS has tightened up management, stabilised its financial position and laid plans for growth. On the retailing side, this will involve opening 200 mid-size, urban food stores - a healthily expanding section of the food retailing business and one where the co-ops are already strong, serving pedestrians as well as the car-borne. As Graham Melmoth, Chief Executive of CWS, has said: “we are seeking to run a successful co-operative business: the emphasis has to be on all three of these words.”

Today, there are a number of outstanding regional co-ops, such as United Norwest Co-operatives, Lincoln Co-operative Society and Yorkshire Co-operatives. Oxford, Swindon and Gloucester Co-op has not only performed strongly in business terms in the last five years (sales up by 27 per cent, and trading profit by 60 per cent) but has boosted its membership, increased its grants to local community organisations and actively supported the work of many other small co-operatives in the area. The experience of Oxford, Swindon and Gloucester suggests that in a typical part of “middle England”, co-operative values of democratic governance are still valued and can be enhanced by the use of modern techniques, such as communication through the Internet, extensive training programmes and other educational work. In total, Oxford, Swindon and Gloucester devotes one per cent of its profits to other co-ops and a further one per cent to community projects. This is far in excess, relatively speaking, of the amounts given by even the most socially committed plcs.

But the Oxford, Swindon and Gloucester’s wider objectives would be impossible if its business were not well run and competitive. It has successfully diversified, into travel, motor vehicles, property and funerals, as well as strengthening its image as the retailer which concentrates upon local, smaller or medium size stores, rather than larger, out-of-town shopping.

This approach is also reflected in CWS’s business strategy. CWS, with 635 shops, has more outlets than Tesco, Safeway, Sainsbury or Asda (taken together, the co-ops have more stores than

these four combined). But only 5 per cent of CWS outlets are out of town superstores, with the bulk in high streets, other local centres or suburban shopping districts.

What has this got to do with social exclusion? The answer is: a great deal. In the first place, the provision of quality food shops and other services for poorer people has become an issue of acute concern as the major supermarkets have concentrated upon serving the car-owning shopper. Since poor people spend a greater proportion of their income on food than better off people, and since it is crucial that they have the opportunity to buy healthy food at competitive prices, the issue of food deserts in high stress urban areas is one to which the co-op has both a moral and a business commitment.

Co-ops also play a major role in providing shops in rural areas. A recent survey showed that two thirds of rural shoppers travel over ten miles to shop - clearly a serious problem for those who don't or can't drive. Half of the over-75s do virtually all their shopping in the village shop, but 40 per cent of rural parishes no longer have a village shop or Post Office. These are all threads in the fabric of social exclusion. Indeed social exclusion in rural areas is one aspect of the problem that has received less Government attention, despite the fact that its consequences are just as damaging.

Demographic analysis of the CWS customer base confirms that it serves disproportionately a less prosperous clientele and the group has continued to re-fit and invest in stores serving these customers. At the same time, in all its stores, the CWS emphasises traditional co-op values of quality produce and low prices for healthy basics, such as fruit, vegetables, meat and dairy goods. Stores often take part in local healthy living and healthy eating campaigns, working with local authorities, health authorities and other bodies.

In recent years, CWS and other co-ops have also put themselves at the forefront of efforts to improve the honesty and clarity of labelling, appointing an independent jury to vet its labels and to adjudicate on complaints. The CWS Code of Labelling Practice for its Co-op stores is unique among retailers and tackles subjects other retailers prefer to evade, such as the quality of labelling about fats and salt. Co-op intensively produced eggs are labelled "fresh eggs, intensively produced", rather than being branded Farmhouse Fresh or some such idyllic deception. In 1994, the Co-op also became the first major retailer to label foods based upon genetic modification. This approach to "ethical shopping" echoes, in its field, the work of the Co-operative Bank. Co-op Stores were the first of the multiples to stock Cafedirect coffee, one of the first and most successful "fair trade" products, and recently followed by the launch of Divine chocolate - a joint venture involving Twin Trading, other UK partners, and cocoa-growing co-operatives in Ghana. The fair trading principle has also recently been applied in the re-launch of the Co-op's own brand Co-op 99 Tea.

One of CWS's most recent successes has been the re-launch of the dividend scheme upon which the earliest co-operatives were based: the practice of returning to members a cash payment as part of the sharing of trading surpluses in the business. Most retail societies dropped the divi in the 1980s after other supermarkets introduced first trading stamps and then a variety of loyalty schemes, though it did survive in some societies. The revived CWS dividend is unique in making cash payments to customers and it also offers premium rewards (five per cent against the standard one per cent typical of other supermarket loyalty cards) to customers purchasing either low-price, own-brand goods and healthy staples, such as fruit, vegetables, meat and dairy products. The revived dividend scheme was credited, along with the CWS's first major national TV advertising campaign for 20 years, for a sharp improvement in sales in the closing months of 1998. Indeed the CWS experienced its best Christmas sales in 22 years.

CWS is showing that given discipline and effective management, co-operative values in retailing can work again at the level of the large, nation-wide retail chain, although it recognises that there is still a long way to go before the financial performance of the group as a whole reaches satisfactory levels. At the same time, CWS is putting more effort into helping nurture small food co-ops, many of them self-help operations in isolated villages or hard-pressed estates. Established co-ops have been especially vigorous and successful in Scotland, helping to mentor new food and other community co-ops. Working in partnership with local authorities and community groups, help has been offered with stock purchasing, store planning, training, second hand equipment, legal advice, marketing, accountancy, and loans. By helping new, struggling co-ops join a wider network of co-operatives, these “bottom-up” organisations are strengthened by practical support, example and by the confidence which comes with the knowledge that many others have successfully been down a similar path. Such “peer group networks” are a vital aspect of community regeneration.

The criteria adopted by CWS for supporting new co-ops are revealing, both in terms of their business stringency and their insistence upon truly co-operative values. Those looking for support are told that they must be able to demonstrate community support for their plans, a democratic structure, evidence of financial support from other local partners and a business plan which shows self sufficiency within two years. CWS has also involved itself in projects like the Govan Healthy Eating Project, which is very much in line with the Government’s emphasis upon public health strategies to reduce the incidence of disease caused by poor nutrition. The Government’s Green Paper, *Our Healthier Nation*, called for “concerted action by the Government as a whole in partnership with local organisations, to improve people’s living conditions and health.” It spoke of “a third way between the old extremes of individual victim blaming on the one hand, and nanny state engineering on the other.”

## Financial exclusion and financial self-help

A core symptom of modern social exclusion is the inability to borrow money at acceptable interest rates and even to run a bank account - facilities most of us take for granted. It has been estimated that one in fifteen UK households lacks any sort of financial product. These households are those which are short of money and jobs, which tend to be located on the harshest estates in Scotland, the North or Greater London. Black, Pakistani and Bangladeshi households also figure disproportionately among the financially excluded [13]. For many people, life outside the ambit of the financial services industry means intensified insecurity in the cash-only economy, with recourse to the extortionate practices of loan sharks when desperation demands.

The principles of co-operation cry out against such a state of affairs. The co-operative movement, along with its bedfellows in the mutual savings, friendly society and building society sectors, have their roots in the belief that even the poorest communities, exposed to the greatest financial turbulence, can band together to purchase a greater degree of security and self-respect. At the same time, locally-based financial institutions, like credit unions, add to a sense of local identity and empowerment and can help limit the leakage of funds from poor areas to more prosperous ones.

It is also clear that the third sector itself and especially smaller, community-level organisations are often held back through lack of access to capital, as are many very small businesses. Two thirds of all Britain's businesses are sole traders, with no access to a market in equity capital and, in practice, severely disadvantaged in securing support from banks and other suppliers of capital because dealing with them may involve a disproportionate amount of banking time for the scale of business involved. Also, since banking decisions are all about risk assessment, banks find it harder to complete standard credit scoring procedures on individuals and small businesses without extensive previous history of dealing with financial services companies. Since 1991, lending by high street banks to small business has fallen from £46.7 billion to £34.1 billion in 1996, though these figures do not include factoring and leasing, which are growing [14].

There have, in a century and a half of co-operation, been many initiatives to address the problem of financial exclusion, so that there is now a significant base of experience to map the way forward. These range from the traditional strength in depth of the Co-operative Insurance Society (CIS) and the emergence of The Co-operative Bank as a significant mainstream player, to the rapid growth in the UK in recent years of credit unions. The principles of co-operation in financial services lie deep at the heart of the co-op movement's commitment to self-help and enterprise, based upon values of trust and integrity. Such values have acquired even greater salience in a world of pensions mis-selling and fraud of the kind perpetrated by the late Robert Maxwell and the difficulty experienced by government in establishing a settled and coherent regulatory framework for financial services companies.

CIS, which is part of the CWS group, was established to promote insurance services to co-operative societies, but evolved into a full-service insurance society. Today, the UK's only co-operative insurer services 3.3 million households with most forms of personal insurance, including life assurance, pensions, mortgages and household and motor insurance. Although CIS serves half a million customers in the AB social groups, its customer base also contains a greater than average number of lower income homes - not least because CIS still runs a large network of 6,000 representatives able to collect premiums in person. Life policy premiums can be purchased for as little as £2 per month and premiums can be paid in cash. CIS also ensures that its services, including affordable contents insurance, are available to those who live in inner city and other high

risk areas where cover might otherwise be difficult or even impossible to obtain. CIS's trading surplus is almost entirely distributed to policy holders - either as bonuses on life assurance and pensions contracts or as special discounts on household and motor policies.

The Co-operative Bank, another member of the CWS group, has thrived by combining an innovative approach to embedding co-operative values in its business, for example by pioneering "truth in lending" demonstrating the true cost of loans. The bank consistently scores among the best in customer service surveys and has led the way in reducing the price of some products, such as credit cards. Wholly owned by CWS, the bank is required to meet not only financial objectives, but also to promote a wide range of social and community values.

The bank's financial performance speaks for itself, having grown its pre-tax profits three-fold in the last five years, its return on equity at 23.6 per cent compares favourably with Barclays and NatWest, matches Midland and is surpassed only by Lloyds/TSB. The bank has done well at controlling costs, limiting bad debts and increasing the value of its brand. It has also led the way in designing new products.

But The Co-operative Bank is probably best known for its development of "ethical banking" in Britain and refuses to lend to companies which trade in arms with oppressive regimes, whose methods involve animal cruelty or which are unsound from an environmental point of view. Its annual "partnership report" includes an independent ethical audit and sets out detailed information about the bank's work in researching the environmental problems of PVC, its campaign against landmines, and its support for the CWS approach to honest labelling. The Co-operative Bank is also a major supplier of funds to community projects and good causes, channelling over 3.5 per cent of its pre-tax profits - £1.95 million - to a wide range of destinations. Among investor-owned companies, it is considered remarkable to give half a per cent of profits - thereby qualifying for membership of the Per Cent Club. These ethical stances have obvious value in their own right, but they also serve the interest of the bank in attracting new customers and deepening the loyalty of others - a good example being the launch of the PVC-free credit card in conjunction with Greenpeace.

The bank has also involved itself directly in combating the problem of financial exclusion by agreeing with the Post Office a deal which allows its customers to perform routine transactions, such as cashing cheques and paying in funds, at 15,500 post offices in England and Wales. The bank is now experimenting with the installation of cash machines in food stores, especially in areas where such machines are scarce or non-existent - if the idea works, the scheme will be extended to Co-op shops throughout the country. Since The Co-operative Bank has also pioneered telephone banking and Internet banking, it can lay claim to being a leader in making financial services accessible. The satisfaction ratings recorded by its customers suggest that this, along with the bank's wider ethical stance, is appreciated.

The lesson to take from the recent history of co-operative banking and insurance services is that it shows that the values of the co-operative movement not only have moral value, they have commercial value - as the Rochdale Pioneers knew very clearly. These values, it is clear, continue to make a very strong appeal to people, including young people, who wish to feel part of businesses which taken a wider view of their social and environmental responsibility. These down to earth values are likely to become even more cherished as global financial and economic conditions become still more volatile and the forces which shape our lives more remote.

At the opposite end of the scale from very substantial co-operative organisations like CIS and The Co-operative bank are the new breed of financial institutions providing capital and loans to the

smallest businesses, to un-banked communities and to social entrepreneurs seeking to establish non-profit activities to the hardest pressed communities.

This is the story of credit unions, mutual loan guarantee societies and other innovations in micro-finance, designed to maximise the savings potential of local communities and to finance activities which create not only jobs but other forms of social capital too. It is a picture which is at once exciting and muddled, rich in promise, but also provoking reflection. Between 1992 and 1997, the number of credit unions in Britain increased from 383 to 584, their membership from 88,007 to 214,660 and their savings deposits from £28.5 million to £105.8 million [15].

Credit unions are, in essence, local savings banks (though they may not be called banks under UK banking regulations, just as they may not be called charities, because their work benefits their owners). Their core virtues of thrift, trust and community solidarity are the same as those which underpinned mutual building societies and friendly societies in the last century. They are widely regarded as one of the most dynamic illustrations of the co-op revival - in the United States, one in four of the population belongs to a credit union and in Ireland one in two.

A recent and comprehensive study by Liverpool John Moores University [16], however, set out to explain why, unlike the US, Britain's credit unions have mostly remained tiny, with memberships measured in the low hundreds, why credit unions based upon groups of workers have prospered more than those based in geographical communities and why credit unions have done better in Scotland than in England or Wales.

The conclusions of the research are that too many credit unions have been formed as a result of financial incentives offered by governmental bodies, especially local government, rather than as a result of bottom-up activism from within communities. It is also clear that insufficient attention has been paid by some credit unions to the need to provide attractive and competitive services, a point reflected in a poor level of professionalism and even basic service in too many credit unions. The researchers found that 62 per cent of credit unions surveyed were run entirely by volunteers and open only for up to six hours a week. Only 10 per cent of the community credit unions examined in the research were judged to be economically self-sufficient and sustainable.

Paul Jones, the author of the report, finds that although 80 per cent of credit unions have benefited from grants from public sources, at a cost of almost £10m a year, many of the grant givers have failed to conduct any meaningful evaluation of subsequent performance so "that many do not even know whether their input has been successful or not." He does not say so, but this suggests that too much of the help for credit unions has been sentimental rather than hard-nosed, an approach which in the end betrays the principles of co-operation. Jones adds: "experience in the US shows that credit unions only worked if they were set up as financial institutions operated on sound business principles with high quality planning." The report recommends a demanding agenda for action, including clarification and simplification of the regulatory framework for credit unions, more flexibility from credit unions themselves about working in partnership with others, the merger of unions which are too small to be effective and the development of a more effective trade association for credit unions, to represent their interest and to provide training and other educational services. There has already been a considerable reaction to this analysis inside, both from government, which is in the process of re-examining the regulatory barriers which have held back credit unions. There have also been a number of credit union mergers in recent months, along with initiatives to raise the profile and quality of service of others, which have resulted in rapid growth.

The Liverpool report's emphasis upon the credit union as a commercially effective savings institution is, in some respects, challenged in an earlier report from the New Economics Foundation

[17], which makes the case for a category of credit unions with wider objectives than those of a co-operative financial institution and which suggests ways in which such objectives might be funded and organised where they cannot be self-sustaining. But it is difficult to argue with the central thrust of the Liverpool research that without effective business planning and management, even the best motivated co-operative will fail. That is the lesson of 150 years of co-operative history, and since the report was published.

The link between the community-level financial co-op - the credit union - and larger, more established institutions is itself an important one. The Co-operative Bank, for example, is banker to more than half of UK credit unions and the bank, along with other co-operative financial institutions like Unity Trust - the bank formed in 1984 by British trade unions and part-owned by The Co-operative Bank - has also played an important role in exploring ways in which capital can be made available to social enterprise.

A recent report for Joseph Rowntree Foundation [18] identified five models for improving the flow of capital to disadvantaged neighbourhoods, namely community loan funds, micro-finance, mutual guarantee societies, social banks and credit unions.

The co-operative movement connects in one way or another with all of these. In the case of mutual guarantee societies, Co-operative Bank and Unity Trust announced in 1997 that they would support this concept, which involves small firms pooling their savings into a common fund that can be used as a security against loans. They typically increase the amount that firms can borrow by between 20 per cent and 50 per cent, not least by providing management support in preparing loan applications and related business plans. As part of the agreement, the two banks provide loans at two percentage points below normal rates - a reflection not only of social motivation but also of the calculation that the risk taken by the bank is reduced by the existence of the mutual loan guarantee society. Currently, eight pilot schemes are in progress. Just as the American example provides encouragement for credit unions, so the pioneers of British mutual guarantee societies can look to Europe, where similar bodies have advanced over £50bn in loans to small firms.

The attempt to develop mutual guarantee societies in Britain has, however, also once more exposed the problems caused for the community finance sector by Britain's banking and insurance regulations. So far, it has proved difficult to satisfy the Financial Services Authority that a Mutual Loan Guarantee Society is not engaged in insurance business. If a MGLS was so regulated the compliance costs would prevent their establishment. This is a small but typical example of the problems which exist in the entire legal framework which governs Britain's Third Sector, which is unlikely to thrive as the government desires without the courage and determination to address such problems.

Yet another approach to micro-lending has been developed by Industrial Common Ownership Finance (ICOF), which was established in 1973 to provide financial support for those wishing to set up co-operative businesses, although in more recent years it has also lent to other forms of social enterprise whose structure incorporates the principles of co-operation and community or social ownership. ICOF makes loans without demanding personal security from the members of the co-operative - an approach which in theory carries higher risks, which ICOF offsets by the care it takes to appraise the business plans and approach of its borrowers. Although ICOF benefited from a £250,000 injection of capital from the government in 1976, since then it has raised funds from ethical investors, including local authorities. In 1998, ICOF had its busiest year, approving loans worth £750,000, with losses of 3 per cent, which contrasts with a figure of up to 20 per cent at some micro-lenders. ICOF's principles of backing good people with good plans and good

principles has allowed it to grow into a significant source of advice in the social economy and it offers a model for further development and expansion of the UK micro-credit network.

The authors of the Rowntree report suggest that taken together, the five types of community finance have a total capital value of more than £400m - a fourfold growth over the last five years. They add, with considerable understatement, that “there remains a substantial mismatch between the scale of the problem and the current capacity of the solutions.”

## Housing and community regeneration

It might be expected that co-operatives would have played a large part in the construction of Britain's post-war welfare arrangements and its housing stock, but the truth is that compared with other countries in Europe, Britain's co-operative sector has in these areas been a small, and in some areas a wholly marginal player.

There are a number of explanations for this. The first is that in spite of the best intentions of William Beveridge himself, during the post-Beveridge years of the Attlee government, the view hardened that the choice to be made in welfare and housing provision was between the public sector and the rest. During a period of sweeping industrial nationalisation, the creation of the National Health Service and the design of a state pensions and national insurance system, third sector organisations, which had pioneered much of this work in the first half of the century, were seen as yesterdays' solution. For the left, the state perfectly embodied the principle of self-help, integrity and mutual obligation.

The renewed polarisation of public versus private in the Thatcher period served to intensify this divide. Thus, although council houses were sold off in large quantities, mainly to private individuals, too little attention was paid to the institutional options for continued development of social housing. Equally, as hard-pressed local authorities withdrew from care for the elderly, the assumption in the 1980s was that the private sector would automatically fill the gap.

With the election of the Blair government we appear, at last, to have transcended this crude polarisation, acknowledging again that self-help approaches to social problems have moral and political value in excess even of the value of the specific services provided. Co-operators are keen to respond in this new atmosphere, since there is a good deal of evidence that co-ops have a large contribution to make in areas like housing, care of the elderly, pre-school childcare, health and leisure services. The evidence for this is particularly stark in the case of housing.

The story of post-war housing in Britain was one of public and private sector boom, followed by the terrible errors of industrial construction methods in local authority housing, followed by the era of privatisation. The inheritance is a chronic under-spend on housing investment compared with Britain's industrial competitors - the UK spends 3.4 per cent of its GDP on housing against an OECD average of 4.9 per cent - and the persistence of extremely bad housing conditions on the poorest estates.

In Britain, local authorities still manage three and a half million homes and housing associations a further one million. There has been strong recent growth in co-operative management in the local authority sector, but fewer than 5 per cent of tenants live in co-operatively managed homes. Among housing associations, there are fewer than 10,000 co-operatively owned and managed units. Last year, the National Co-operative Housing Forum was established to strengthen advocacy for the co-operative housing option [19]. As David Rodgers, Executive Director of CDS Co-operatives, has noted: the first report of the Social Exclusion Unit failed even to mention housing co-operatives, whilst apparently paying tribute to the virtues and values for which the co-operative movement stands.

There are four types of housing co-op in the UK, so-called par-value co-ops, whose members are tenants and owners; tenant management co-operatives, where the co-op manages housing on behalf of a landlord; short-life housing co-ops and self-build co-operatives. The attractions of co-operative ownership and management are self-evident: tenants who take greater responsibility for their own living conditions acquire a greater sense of control over their own lives and invariably look after

their homes and neighbourhoods better. Unlike some other areas of co-operation, the value of co-operation in housing is obvious, in terms of the potential for improving living conditions and restoring a sense of control to the lives of people who are too often the victim of institutional bullying. Housing co-ops also offer an excellent way for citizens to increase their skills in terms of making public arguments, management and areas such as debt counselling.

But it took an investigation by the management consultants, Price Waterhouse, to buttress this view with clear evidence in a study carried out between 1991 and 1994 and published in 1995. This involved exhaustive analysis of the performance of a variety of tenant-led housing organisations and reached enthusiastic conclusions about all types of co-op. All forms of tenant co-operative performed better than comparable local authority housing managements and co-operative approaches also had the edge on non-co-operative local management approaches, such as appointed estate management boards. Other key findings of the report included:

- par-value co-ops came out best in terms of quality, value for money and other intangible benefits - the report described them as “effective, adaptable and resilient.”
- smaller scale tenant management organisations worked best
- costs for tenant-managed housing were typically 10 to 15 per cent below those of local authority management
- tenant participation rates were high
- they worked best when given true control over their budgets and operating procedures.

It is disappointing that there has been so little practical outcome from this analysis. The Housing Corporation has for years been hostile to co-operative models of housing and inclined to favour the largest scale housing association schemes. Meanwhile, in terms of overall housing policy, the UK continues to suffer under-investment and the scandal of a housing benefits system which costs £12bn a year and which is widely acknowledged to be both out of control and designed in a way which chiefly succeeds in allowing private sector landlords to increase rents without fear of tenant rebellion.

It is difficult to quarrel with the assertion in the Co-operative Party’s statement that “housing co-operatives are an ideal way of harnessing personal responsibility to meet housing need. They are important in terms of maintaining choice and diversity as well as accountability to users. Little choice exists in Britain between owner occupation and local authority/housing association renting. What is needed is recognition of the distinctiveness of co-operative housing and the role it could have in a comprehensive national housing strategy.”

Equally important, however, is the acknowledgement in the major report on co-operative housing from the UK Co-operative Council published last year that co-operatives “recognise the importance of social entrepreneurs, both within and without the community they serve, who can provide the leadership, support, training and expertise necessary to build the capacity of housing consumers until they have the confidence, corporate structures, knowledge and understanding necessary to responsibly and effectively take control of their own affairs.” In other words, third sector organisations committed to bottom-up regeneration of estates, communities, towns and cities need to work together rather than insisting upon the inviolability of their own ideology. What is needed in the housing field is a richer set of options for people, especially for poor people - an end to what Eric Hobsbawm called in a wider historical context the *Age of Extremes*.

What has been said about housing could equally well be said about care of the elderly and the chronically incapacitated. Again, co-operatives are a numerically small force, but offer obvious attractions in terms of the ethic of self-help, the commitment of co-operatives to stable, decently paid workforces and the quality of management which comes from the particular approach to responsibility involved in the democracy of co-operatives.

A study in 1998 by the Industrial Common Ownership Movement [20] reported the existence of 49 care co-operatives in the UK, most of them started in the late 1980s or 1990s, which are chiefly concerned with domiciliary care of the frail elderly. These co-ops appear to be growing quite rapidly and demographics suggests that this market will continue to expand. Their styles are richly varied, as you would expect from organisations which have arisen directly out of unmet need, rather than being expanded in a franchising or branch network approach, as is often the case with private sector care homes. Some are “agency co-operatives” - meaning that the carers are self-employed and pay the co-operative a commission for centralised services; others are fully fledged worker co-operatives. In structure, these agencies have much in common with general practitioner co-ops, which have been formed by doctors to organise out-of-hours cover.

Care co-ops, like their equivalents in the private sector, contract for work with local authority social services departments, as well as providing a service directly to individuals. In practice, whether or not co-operatives emerge in any given locality has a great deal to do with the existence of co-operative development agencies, which can provide advice and other forms of practical help to fledgling co-operators. Because co-operatives are not required to produce dividends for shareholders, research shows that staff are better paid than in private sector homes, though often less well paid than staff in homes run directly by the local authority. The relationship between co-ops and their local authorities is sometimes tense, since the local authority can be both a purchaser and a rival provider. It seems certain that under the government’s “best value” guidelines for local authorities in determining whether services should be provided in or out of house, there will be further transfers from the public sector in the coming years: co-ops offer an effective third way between local authority provision and contracting out to the private sector.

## Co-operatives and job creation

By continental standards, worker co-operatives are small beer in Britain, accounting for an estimated 15,000 jobs in 1,500 organisations with a combined turnover in excess of £300m. They are active across the whole spectrum of the economy, from children's nurseries to the provision of Internet services.

It is not surprising that worker co-ops have flourished more in Spain, Italy and France, where they are recognised as an integral part of the economy and granted distinctive legal status and preferential tax treatment. In the UK, the labour movement of the 19th century, influenced by the Webbs, rejected the notion of worker control and instead adopted the aim of securing for the state direct control of the commanding heights of the economy.

The aims of workers' co-operatives include the safeguarding and creation of jobs and the stabilising of local economies. In Britain, some of the most notable worker co-ops have been transferred from either the public or the private sector. The modern worker co-operative movement has its origins in the conversion of the Scott-Bader chemicals business from private to employee ownership. Tower Colliery is a former British Coal pit, now managed as a worker co-operative. Its members are not only concerned with running a highly professional business, but also with ensuring the availability of quality employment in the South Wales valley where it is located - not just in the short-term, but for generations to come.

One interesting, relatively young co-op is Greenwich Leisure in south-east London. In 1993, this organisation took ownership of seven local authority leisure centres and has gone on to reverse years of attrition in service by opening three new centres. Greenwich Leisure is now a £6m a year business and is, legally, a Society for the Benefit of the Community, a hybrid type of co-op which aims to prioritise the stakeholding of the wider community, ahead of the interest of the organisation's staff. Its facilities are modern, well-run and of unusually high quality - offering a wide range of facilities beyond swimming pools, such as keep fit classes and services aimed at children. Greenwich Leisure's board has representatives from customers, the local authority, the relevant trade union and the workforce [19].

Although not all worker co-ops have any direct bearing on the issue of social exclusion, they are the only part of the co-operative movement to have job creation as a primary aim. Employee owners tend to be more deeply committed to their local economic base than investor-owned companies and local ownership means that profits are more likely to re-circulate in the local economy. Many worker co-ops also pursue other, more specialised social objectives. For example, wholefood companies such as Suma, Green City and Infinity take the trouble to sell to small, neighbourhood shops, as well as to supermarkets. Others, like Daily Bread, have adopted policies of employing disadvantaged people, including those with disabilities, a history of mental illness and ex-offenders.

## Co-operatives in the 21st century

What are the lessons for the co-operative movement for the future? And what can either government or other agencies do to maximise the potential input of co-operatives in the fight against social exclusion?

The strong, clear message to co-operators is that there is no hiding place from the demands of competition. It is a case of compete or die. Organisations which provide goods or services which do not compare well in terms of price and quality will fail, whether they are owned by co-operators or by tycoons chewing fat cigars. This applies obviously in sectors where the competition comes from major retailing groups or clearing banks, but it also applies in social services like education, child care and housing. We live in an age of performance measurement and accountability: the third sector in general, and co-operatives in particular, cannot expect to be shielded from this. Where co-operatives are active in sectors which are not capable of generating commercial returns, there will be a proper case for sustained subvention from public funds. In practice, such subventions will only be forthcoming where there is the highest quality of financial transparency and where value for money can be clearly demonstrated. The recent history of credit unions suggests that these lessons have not yet been sufficiently grasped.

In return co-operators deserve a much more firmly constructive response from government. Above all, ministers and officials should put behind them the idea that co-operatives are decaying 19th century institutions, which met their predictable demise in the economic turmoil of the post-war years. There is abundant evidence from within the CWS group, from other retail co-operatives, from the financial services sector and from housing that this simply is not so. The co-operative movement has learned from its errors. It is time that government did more than echo the language and values of co-operators to ensure that when it is thinking about re-designing the institutions and processes to deliver policy in health, education, welfare, housing, it builds into its thinking the place and potential of co-operatives.

In truth, New Labour has not got to grips with the important issue of ownership. Its natural pragmatism whispers that what works is right, but there is a danger that in rejecting the sterility of the polarised argument about state versus private ownership, the case for diversity in forms of ownership will go un-examined. Ownership matters. In all the meanings of that word, the issue of ownership lies at the very heart of social exclusion. The socially excluded need a sense of ownership. One of the most intransigent aspects of the great welfare conundrum is that the poorest 15 per cent in Britain cannot afford to put cash aside to save for their retirement - because they lack capital, whether in the form of savings or real estate.

Even in the most committed free market economy in the world, the United States, there has been sustained recognition of the value of employees owning shares in the firms for which they work - 9 million workers there are involved in employee share ownership plans, for which there are generous tax incentives, and many mutually owned organisations flourish, from housing co-operatives to utility co-operatives. In Britain, we have no difficulty understanding why lawyers, doctors, accountants and merchant bankers are attracted by working for partnerships, in which ownership is dispersed among (primarily the most senior) members of staff, but we ignore the relevance of this for the great mass of employees.

What we need to do is to stand back from the inaccurate assumption that the profit-maximising, investor-owned plc and the public sector are the natural and unchallengeable giants of a modern economy. We need only look around us to see a rich array of third sector, non-profit organisations flourishing all over the world. However, when it comes to building sustainable social capital,

generated by a sense of local self-responsibility, neither the public sector nor private business will be the most significant player. Private business has a history of crowding the third sector out of the capital markets and the public sector of bludgeoning it, often by competing unfairly. A recent example of the latter was the way that schools competed for new government money for nursery places, ignoring the damage done to the pre-school playgroup movement.

The issue of ownership demands more careful consideration than this. There will be many areas of economic activity, where investor-owned, profit-maximising companies will properly be dominant, but there are many other instances where there will be either a need for stronger regulation or a different form of ownership, or possibly a combination of both. When consumers or employees become owners, their sense of self-esteem, responsibility and participation can be transformed.

A good example of our current political bind is provided by the railways, which failed in the public sector and are now failing in the private sector, in spite of heavy and multi-faceted regulation. The current government faces the dilemma of paying huge subsidies to private companies which may then over-reward shareholders and senior staff. Why has a mutual or co-operative form of ownership not been considered? The same arguments go for London Underground.

Likewise, in re-franchising the National Lottery, the government will face a choice between a profit-maximising approach from the private sector or a non-profit operation. It would be wrong to prefer automatically a non-profit bid, since it might be so much less efficient than the alternative that the public benefits would be less. But it would be good to see a bid which offers a way of the ownership of the lottery being more widely dispersed, reflecting a wider constituency of interests. Why does the government not ensure that it receives such a bid? It was one thing for a previous Labour government to shoehorn a dying industry like motorcycles into a workers' co-operative, but what we need now is to examine the potential of more imaginative forms of ownership for important, growing organisations in vital sections of the economy - like universities, the BBC, Channel 4, London Underground, health-care organisations and schools.

General practitioners in the health service offer a case in point. They are at the forefront of the government's plans to make the NHS more responsive and more efficient and yet their practices are, for the most part, in effect privately owned. Although GP co-operatives exist, chiefly to provide combined out-of-hours cover, it is not difficult to see the benefits that would arise from going further, to create community co-operatives in which the interests of both patients and doctors are represented. GP co-ops? Why not?

As for schools, if the government is prepared to see private companies take over the running of failing schools from local authorities which are not performing, it is hardly more radical to suggest that co-operatives (or indeed other third sector owners) have something to offer too, building on the experience from Europe and North America in the creation of charter schools, which offer new owners a route into providing educational services in competition with local authorities. At present, mutual and co-operative approaches to problems in the health and education sector, in pensions, transport, broadcasting are simply overlooked. In what circumstances do co-operatives offer the best approach? The answer is that owner co-ops work best when there is a clear opportunity and incentive for people to work closely together for practical, mutual interest, as in housing, care of the elderly and mutually interested forms of financial service, where as a result, the customer/owner gets a better deal. Consumer co-ops are capable of operating across a much larger geographical distance, though there may be tighter limits to viable size for a true co-op than for an investor-owned company. Co-ops also offer the organisation's owners the chance to express their concerns about wider issues in the community directly through investment in other communal bodies and businesses. This is all invaluable accumulation of social capital.

It also has to be recognised that although to some people, democratic ownership structures offer a welcome chance to break from passivity, to others, the responsibility of active ownership appear merely onerous. Both responses must be catered for if co-operatives are to succeed. Co-ops also need to be open to co-operation with non-co-operatives, if that does not seem too convoluted a thought. The future belongs to organisations which are capable of learning from beyond their own boundaries and of forming dynamic partnerships with other types of organisation and creating new hybrid forms of ownership.

Yet it cannot be denied that these ideas are remote from today's real political agenda - which suggests that there is still need for a type of thinking which runs wider and deeper than the day to day political debate. As Jeff Gates has argued in the United States: "the moral legitimacy of markets and democracies is based on the premise that they disperse power across a wide range of individuals and thus benefit from the foresight, concern and common sense that reside uniquely in individuals and their communities. Today's disconnected capitalism is very far from this ideal ... with so much financial capital concentrated in the hands of money managers, money itself has become the measure of the public good, with capital markets operating as if on automatic pilot, guided solely by the maximisation of financial returns."

Gates's argument for a new "ownership solution"<sup>20</sup> to the problem of a capitalism, which locates power and resource in an ever narrower segment of a global elite is one that deserves serious political attention, particularly as it chimes with a strong line in micro-economic analysis in the 1990s which argues that purely investor-driven capitalism on the current model will continue to deliver inefficiencies in terms of investment, short-termism, unsustainable inequalities and in-built disregard for long-range environmental consequences.

What this suggests for government is that we need a step change in thinking - one entirely consistent with New Labour's stated values and objectives, but which addresses head on the ownership issue, specifically in the context of social exclusion. This is a job too large for a government task force, because task forces have shown no skill at stimulating public debate. Better would be a Royal Commission on Ownership, able to ask searching questions in a broad, synoptic way and with the resources and authority to commission important research and take stock. What are the opportunities for sharing ownership more widely in British society? What contribution could wider ownership make to alleviating debilitating welfare dependence? To what extent would direct ownership help us to improve the quality of our services and strengthen local economies? What role is there for innovative forms of ownership in dealing with the particular problems of rural poverty and social exclusion? What does a discussion of ownership tell us about the debate in information poverty and exclusion?

Such an inquiry would, to be sure, encounter complexities. It is very difficult to devise a path forward for the third sector, when the law on charities is so deeply and damagingly out of date, and the same applies to the laws and regulations which govern co-operatives. But if we do not address these questions within the right intellectual context, we will generate answers that are merely technical and become rapidly obsolete. What we need is a process which takes us, in institutional terms, beyond the sterile contest between the public and private sector.

There is also much to learn from Europe in terms of the social economy. Because other European Union countries did not experience, to the same extent as Britain, the polarisation of arguments about public versus private ownership. They tend to have a more settled legal and political framework for social enterprises and a larger third sector. This is reflected in the fact (which always sounds a touch anomalous to the British ear) that one of the European Commission's directorates is charged with looking after the interests of social enterprise. It has been calculated

that between 1980 and 1990, the third sector as a whole created one in seven new jobs in France and one in eight in Germany [21].

## What should happen next?

Here then is a short agenda aimed at stimulating the co-operative revival, within the context of a wider revival of the third sector and with the aim of strengthening the assault on social exclusion:

- Launch a Royal Commission on Ownership to recommend ways of enriching the blend of ownership models in Britain and ensuring that each form of ownership, including co-operatives, has a modern and appropriate legal and fiscal framework. This would make recommendations across a wide spectrum, including industry, public services, health, education and welfare, with the aim of generating a major public debate and stimulating innovation across Whitehall. For co-operatives, it would make specific recommendations for legislation to remove regulatory impediments to the growth of co-operatives. The commission would examine ways of allocating to the general public stakes in communally owned institutions.
- Work with co-operative and mutual financial institutions to create a network of UK Social Investment Banks to provide low-cost loans and equity investment to third sector organisations, including co-ops, working in areas of high social exclusion. This would be a partnership between the public, private and third sectors.
- Ensure that “best value” rules for local authorities “externalising” services include consideration of co-operative alternatives.
- Ensure that the Housing Corporation properly considers co-operative alternatives for housing management and housing development as part of a national housing strategy to improve the mix of forms of housing tenure and management.
- Explore the scope for extending co-operative primary care structures in the NHS and design pilots.

This is by no means an exhaustive list and it avoids detailed proposals on issues to do with particular sectors, like housing and care of the elderly, which have been outlined in other reports.

The argument of this pamphlet is that we have reached the ideal moment to stand back from the achievement of a century and a half of co-operatives and, in the context of re-assessing the future of the third sector as a whole, to ask where the journey leads next. If we are serious about dealing with social exclusion and persistent inequality, we cannot duck the issue of ownership. In the 1980s, it became politically fashionable to say there was no alternative. The message here is that there are lots of alternatives, many of them tried and tested but languishing for lack of the right legal framework, or the right form of encouragement from policymakers.

Among these alternatives, co-operatives stand clear with their values of participation and accountability. As self-help organisations, they are ideally equipped to help people realise their potential by developing the skills and self-confidence which represent the only route out of social exclusion. Their history shows that these are adaptable, flexible organisations capable of operating in a wide variety of settings. So it is not surprising that co-ops are already playing a very large role indeed in tackling social exclusion. They are in from the cold, but there is much, much more they could help us achieve.

## Notes

1. Our Healthier Nation. Stationery Office. 1998 Cm 3852.
2. For a fuller discussion see Demos: the wealth and poverty of networks: tackling social exclusion, 1997. This collection of essays also contains Peter Hall's Social Capital: a fragile asset.
3. Bowling Alone: America's disintegrating social capital. R. Putnam, Journal of Democracy 1995
4. Conversation: Theodore Zeldin, Harvill Press, 1999.
5. The Third Way, the renewal of social democracy. Polity Press, 1998.
6. A step beyond Morris Dancing: the Third Sector and the Third Way in Tomorrow's Politics ed Hargreaves and Christie, Demos 1998.
7. For a full account of this story, see Co-op, the people's business by Johnston Birchall (Manchester University Press 1994) or The international co-operative movement by the same author (Manchester University Press/ICA 1997).
8. Co-operative principles for the 21st Century. International Co-operative Alliance 1995.
9. See, for example, the writings of John Kay and Will Hutton. John Kay's argument is captured in a collection of essays published by the Social Market Foundation in 1998 or in his The Business of Economics, Oxford University Press. Will Hutton's classic text is The State We're In, Vintage 1996.
10. Demos mutualism project, Charles Leadbeater and Ian Christie - forthcoming 1999.
11. The Co-operative Opportunity (UK Co-operative Council, 1994) draws together relevant facts and figures and short historical survey of British co-operation. It was published on the 150 anniversary of the formation of the Rochdale Pioneers.
12. Running on empty. Michelle Harrison and Tim Lang in The Wealth and Poverty of Networks. Demos Collection 12, 1997.
13. Reinventing the co-operative: enterprises for the 21st century. Plunkett Foundation 1995.
14. The extent of financial exclusion and the characteristics of households that are excluded. E. Kempson and C Whyley, Personal Finance Research Centre, University of Bristol, July 1998.
15. Small is bankable: community re-investment in the UK. Ed Mayo, Thomas Fisher, Pat Conaty, John Doling and Andy Mullineux. Joseph Rowntree Foundation 1998.
16. These figures and the core of the accompanying analysis derive from Towards sustainable credit union development by Paul A. Jones, a research project undertaken by Liverpool John Moores University, published in draft form in 1998 and due for formal publication in 1999.
17. The facts and figures in this section are derived from Co-operative Housing, realising the potential, UK Co-operative Council 1998 and Tenants In Control: an evaluation of tenant-led housing management organisations by Price Waterhouse for the Department of the Environment, 1995.
18. Co-operating in Care: a study of care co-operatives for the UK Co-operative Council. ICOM 1998.

19. An account of Greenwich Leisure's story, along with that of other co-ops and social enterprises in London is available in *Social Enterprise in London: case studies in economic participation*. This was published in 1999 by a newly formed organisation, Social Enterprise London.
20. *The Ownership Solution* by Jeff Gates, Allen Lane/Penguin 1998. Gates is a one-man crusade for a more democratic form of capitalism in the US - his ideas are radical beyond the wildest shores of anything being discussed in current British politics, though *The Ownership Solution* was described by Denis MacShane MP as "the best book on economics for a generation."
21. *Promoting the role of voluntary organisations and foundations in Europe*. European Commission 1997.