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**WORKERS' COOPERATIVES
IN EEC AND CMEA COUNTRIES
— United Kingdom and Poland as examples —**

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WORKERS' COOPERATIVES IN THE EEC AND CMEA COUNTRIES - WITH SPECIAL
REFERENCE TO THE UNITED KINGDOM AND POLAND

Why this subject?

In recent years a dynamic growth in the number of cooperatives can be observed in European countries. Most remarkable is the rapid development of workers' cooperatives. In EEC countries the most important role in the national economy is played by the cooperative movement in Italy where there exist more than 125,000 cooperatives of all types, including 20,000 workers' cooperatives which employ about 200,000 people¹.

In the U.K. the role of cooperatives is more limited, although a very interesting phenomenon yet unknown in the dynamics of the development of workers' cooperatives can be observed. In 1975, there existed 19 workers' cooperatives in the U.K. Seven years later, in 1982, there were more than 500, and in the subsequent two years their number grew to about 900². If growth continues at the same pace, the number of cooperatives will reach 2,000 in 1990, and about 25,000 jobs will be created³.

Poland is a country with a relatively important role of the cooperative sector in the national economy (as against the other CMEA countries). Nearly every type of cooperatives existing in those countries is well represented in Poland (except for the agricultural production cooperatives). Between 1980 and 1985 the total number of all types of coopera-

1 See E. Estrin, D.C. Jones, J. Svejnar, The Productivity Effects of Worker Participation: Producer Cooperatives in Western Economies, *Journal of Comparative Economics*, No. 1, Arizona State University, 1987, p. 45, and *Local Employment Initiatives, An Evaluation of Support Agencies*, by Centre for Research on European Women-CREW, Brussels, Luxembourg 1985, p. 219.

2 See M. Rigge and M. Young, *Workers' Cooperatives and Their Environment: Comparative Analysis with a View to Job Creation*, Support for Workers Cooperatives in the United Kingdom, Ireland and the Netherlands, Luxembourg 1985, p. 1, and *ibidem*, p. 42.

3 See *Local Employment Initiatives*, op.cit., p. 8

tives in Poland increased from 10,977 to 14,322 representing a growth of more than 30 percent⁴. In the same period of time the number of workers' cooperatives has grown even faster from 1,986 to 2,531 constituting more than 41 percent growth. On the other hand, it is also interesting and important to state that the number of workers employed by the workers' cooperatives in Poland was 672,000 in 1985.

In recent times the cooperative sector has become a significant part of the economy, both in Western and Eastern countries. In the first half of the 1980s in the EEC countries, especially in connection with persisting high levels of unemployment, the interest in cooperatives as a form of economic activity which creates new jobs has risen considerably. Taking into further account the future direction in the reform of socialist economies, one can anticipate an increase of the role of the cooperative sector⁵. Undoubtedly the above mentioned arguments and figures seem to justify the need for investigation into the problems connected with the functioning and development of cooperatives in European countries. At this junction a characteristic of the role of workers' cooperatives in relation to their functions must be noted. Workers' cooperatives play a special role in creating new jobs in Western countries as well as in filling the supply market gaps in Eastern countries. In this we can perceive the vital role of workers' cooperatives.

Some facts from the history of the cooperative movement

The contemporary cooperative movement stems from a long and rich tradition. That tradition was born in the late 18th century (in the USA) and the first half of the 19th century (in Europe).

The theoretical origins of the ideology which influenced and supported the cooperative movement can be seen in the thoughts of the utopian

4 See Rocznik Statystyczny 1985, GUS, Warszawa, p. 37.

5 Confirmation for such a thesis is that in Poland, in the beginning of the 1980s, during the introduction of new economic rules, also a new Cooperative Law was introduced. The purpose was to adjust the Law to the new legal framework of the economy. See: Prawo Spółdzielcze 16.09.1982, Dz.U. 6.10.1982, no.30, poz.210, Dz.U. 1983, no. 39, poz. 176.

small shops and large departmental stores with about 18 percent of the total retail market in Sweden⁷.

Other wings of the cooperative movement experienced a less bright but equally vast and long tradition: An example can be the development of the agricultural cooperatives in the Republic of Ireland where as early as 1893 a large cooperative support organisation was created. It was the Irish Cooperative Organisation Society (ICOS) founded by Horace Curzon Plunkett with the objective of improving the living conditions of the agricultural population in Ireland by teaching methods and principles of cooperation as applicable to farming and allied industries⁸. In order to illustrate the dynamics of the development of the movement it should be mentioned that in the early 1980s the members of ICOS were still predominantly agricultural cooperatives and had a substantial share in Ireland's agricultural production, i.e. about 90 percent of the dairy products market and 60 percent of livestock marketing. In 1980, 163 cooperatives with 251,071 members and 19,456 employees belonged to ICOS.

The history of workers' cooperatives reaches back to the earliest stages of the cooperative movement. In the United Kingdom one can speak about more than one hundred years of existence of this type of cooperatives. Workers' cooperatives in the Netherlands can be traced back as far as the early part of the 19th century when dikers and peat cutters formed workers' organisations⁹. In France, the workers' cooperative movement developed in the 1830s. Several years later it was known in Italy. Except in Italy and partially in France, this type of cooperative organisation had not become a mass movement before 1980. It was treated with suspicion as a social experiment. In recent years this situation is changing.

7 See A. Zimbalist and Howard J. Sherman, *Comparing Economic Systems, A Political-Economic Approach*, London 1984, p. 59.

8 See M. Rigge and M. Young, *op. cit.*, p. 89.

9 *Ibid.*, p. 106.

Notion and types of contemporary cooperative societies in the United Kingdom and Poland

Before making a more detailed description of the features of the workers' cooperatives, it will be helpful to determine what cooperatives as such are and what types of cooperatives there exist at present. In its broadest definition the term cooperative, also co-op, simply means a firm, building, farm, shop etc. owned and controlled by people who work in it (producers' cooperatives) or use its services (such as consumers' cooperatives)¹⁰.

Legislation governing the functioning of cooperatives exists in most European countries and conforms with the principles of cooperation laid down by the 1966 Vienna Congress of the International Cooperative Alliance. The main principles included in national cooperative laws are: equal voting rights (i.e. one member - one vote), free and voluntary membership and limited remuneration of the underwritten capital. In spite of a general acceptance of these principles in European countries, there still exist detailed differences in the rules. While there is in Italy for example no upper limit there must be no less than 9 members, and for cooperatives which participate in public contracts 25 members are required. Generally, in Italy, France and Spain (Mondragon) only workers can become members of primary cooperatives, but in the UK in the traditional cooperatives there are three classes of members: workers, other individuals (particularly former workers) and other societies (particularly other cooperatives and trade unions).

There are different types of cooperatives covering different areas of economic activity. In the UK the following types of cooperatives exist¹¹:

1) Housing cooperatives

People who provide themselves with housing, join together to form cooperatives. The cooperative is the members' collective ownership and con-

¹⁰ See Longman Dictionary of Contemporary English, Bath 1981, p. 243

¹¹ See Extracts from Lambeth CDA's workers' cooperative information pack, in: Local Employment Initiatives, op. cit., pp. 74, 75.

trol of the house they live in. Each member pays a share of the cost of running and providing the housing. Any citizen can form a housing cooperative or join an already existing one.

2) Credit unions (savings cooperatives)

The cooperative provides its members with a place to deposit their savings and with the possibility to lend money at low interest rates. Members have full control of what happens to their money.

3) Consumer cooperatives

This is the best known and most successful type of cooperatives. Co-operators in this case are the members who purchase goods at the cooperative. Members benefit from lower prices or from dividends. Recently, some cooperative ventures are locally based food co-ops, where a group of neighbours organize a bulk purchase of food from producers or warehouses and distribute it among members.

4) Farming and fishing cooperatives (marketing co-ops)

Farmers or fishermen act together to sell their goods by forming marketing cooperatives. Farmers also set up cooperatives to buy large pieces of agricultural equipment. In recent times marketing cooperatives are being set up by potters, jewellers and other craftsmen by way of central shops run by cooperative members.

5) Community cooperatives

People who live and work in a given geographical area sometimes set up a community which is open to all inhabitants of the area. The cooperative covers a whole possible range of business activities. Such cooperatives are usually organized in small population areas such as islands or highlands. They mobilize capital from the savings of the residents of the area often with additional support from public authorities.

6) Workers' cooperatives

Workers' cooperatives are businesses controlled and collectively owned by workers employed in them. An important feature of their rules is that they do not admit outside shareholders except workers. The workers

socialists such as R. Owen (1771-1858) and Ch. Fourier (1772-1837) and social practical experience. From the very beginning the cooperative movement developed in four main directions: i.e. consumer cooperatives, agricultural cooperatives, workers' cooperatives and handicraft and shopkeepers' cooperatives. Although the movement developed parallelly in many European countries such as the United Kingdom, France, the Netherlands, Italy and Sweden, and did so more or less in the same period of time, the British tradition is the best known.

The reason for this is that at the beginning the most dynamic development occurred in relation to consumer cooperatives. In that field of economic activity the most spectacular achievements were first attained by the United Kingdom Rochdale Pioneers retail cooperative society set up in 1844. The functioning rules of the cooperative created by the Pioneers (the "Rochdale Principles") were so famous and popular that they became a model for other cooperatives in the United States and abroad. In 1869, on the social basis of the consumer cooperatives the Cooperative Union⁶ was established. Today it is the national and federal advisory body for consumer cooperatives societies, and its seat is in Manchester not far from Rochdale where the first retail society was set up. When the Rochdale Pioneers founded their cooperative society, they were determined to be neutral in respect of politics and religion. But by the turn of the century their movement became a significant force in the economic and political life of the country which was represented in Parliament. In 1919 it was formally named the Cooperative Party and was acting as a department of the Cooperative Union. At the beginning of the 1980s the retail societies were the most powerful cooperative group in the United Kingdom with about 10 million members and an annual turnover of about £ 4000 million.

When considering the longlasting traditions and success of consumer cooperatives, the example of the Swedish cooperative society should also be mentioned. The Cooperativa Förbundet which was established in 1889 by 40 societies, is running today about 2000 retail stores including

⁶ In the same year, on contemporary Polish territory, the first consumer cooperative was established.

Their characteristic features are:

- JOL company abolishes the distinction between owners and workers, all workers, after a probation period, become members with the right to control the company;
- shares of the company cannot be freely bought or sold as in the case of a traditional company, although this is possible within the cooperative, but not recommended;
- the value of individual shares is related to job tenure and the amount as well as quality of a member's work;
- when retiring or leaving the company a member can withdraw his shares, but only of type B whereas 20 percent represent shares of type A which cannot be withdrawn;
- new members must contribute shares valued at at least 25 percent of the lowest gross wages;
- wages are regarded as an advanced payment out of the company's net income;
- the company creates a special reserve fund.

The main differences between JOL's model rules and the more often applied rules of ICOM are:

- members have to buy themselves in and
- when a member leaves, he can get back the value of his shares plus a sum related to the growth in value of the company's assets during his period of work.

In spite of the differences which can be observed in the rules governing the establishment and functioning of the cooperatives in the UK, one can say that the workers' cooperatives are based upon the following principles:

- the total control of the enterprise, as well as management, objectives and use of assets by its workers;
- capital interests are fixed at an agreed reasonable rate, but the reward for more productive work accrues directly to the worker involved;
- if workers decide to dissolve the enterprise, they should not draw benefit from doing so;
- each member has only one vote;

- membership of the cooperative is open to all workers without discrimination¹⁴.

When comparing existing types of cooperatives in the United Kingdom and in Poland, one can observe that in Poland the Cooperative Law of 1982 first makes provisions concerning all types of cooperatives in Poland (*lex generalis*), defining the notion, the main rules of setting up and functioning of cooperatives and then makes provisions regulating separate legal solutions for some aspects of activities of certain types of cooperatives (*lex specialis*). This means that in Poland people establishing a cooperative cannot, as in the UK, choose the legal form of the cooperative. This form is determined by the field of activity of the cooperative. The scope in choice is limited to issues regulated by the statute of the cooperative.

Based upon the Polish law "a cooperative is a voluntary and autonomous association with an unlimited number of members and changeable share fund, carrying out economic activity according to the needs of the members and taking into consideration assumptions of the central and regional socio-economic plans as well as guiding socio-educational activity for improving the living and cultural standards of its members, and for the welfare of the Polish People's Republic"¹⁵. The general image of the cooperative emerging from the Polish legal definition is very similar to the image of the cooperative in the UK except for one feature. It is the existence in the Polish legal construction of the obligation of binding the interests of the cooperative to the national interest via the central and regional planning systems. To better illustrate this problem as well as to find the other differences, the Polish Cooperative Law must be described in a more detailed manner.

The legal definition of the cooperative permits to disclose the following features:

1. The associational character of the cooperative in achieving the defined objective which cannot be achieved individually.

14 See Local Employment Initiatives, op. cit., p. 75

15 See Prawo Spółdzielcze, op. cit., § 1.

2. Freedom of membership which precludes any form of compulsion to establish the cooperative as well as joining and leaving it.

3. An unlimited membership. The cooperative is an association of members, not of capital. This does not imply that the cooperative is bound to admit all those who apply for membership although they fulfil the requirements of the statute. A limit can be deduced from the economic perspectives of the cooperative.

4. The changeable character of share funds is a consequence of the freedom of membership and unlimited number of members.

5. The economic character of the activities. An organisation which is not carrying out economic activities is, despite other similarities to the other functions of cooperatives, not to be considered as a cooperative. The cooperative is planning its economic activities independently and on its own. In the formulation of its planning it should take into account the national and regional plans and the welfare of the country.

6. The autonomy of the cooperative, i.e. the possibility to decide cooperative matters within legal limits. This principle is reflected in the more detailed rules of the Cooperative Law such as:

- the rules creating cooperative organs providing for the election of members only from among the members of the cooperative,
- the rules defining the competence of the General Assembly of members which has the right to decide on the most important cooperative matters,
- the rules which say that all controversies arising from the membership are solved by intra-cooperative procedure,
- the rules providing equal rights and organisational duties for each member without regard to the number of shares they hold.

The rules described above decide about the so-called internal autonomy which in fact safeguards the internal democracy of the cooperative. These rules are in general very similar to those regulating the same issues in the UK. This statement is true also for the first four features of cooperatives described above.

As concerns the fifth afore-mentioned feature and the so-called external cooperative autonomy, differences can be observed. External cooperative autonomy is reflected in the independent way of its activity. In order to protect the independence of the cooperative, the Cooperative Law provides that local and central authorities may create additional rules only in cases where the Cooperative Law authorizes them to do so. A formal exception from the rule of independence is that the organ of state administration has the right to impose on the cooperative the duty to fulfil a task if this is in the interest of national security or in case of disaster. In such instances the organ of administration is obliged to provide the means for fulfilling such tasks. If the cooperative undergoes a loss, it can demand state compensation. The organ can be sued in court.

In spite of the formal protection of independence as described above, some influence on the cooperative activity can arise from the duty to participate in the planning systems as well as acting for the welfare of the country. It is a formally "open door" for external pressure on the decisions of cooperatives. The power of such pressure is changeable depending on specific circumstances.

When describing the Polish rules of establishing cooperatives and their functioning, it is worth mentioning that at least 10 members are required to set up a cooperative, if the statute does not call for a greater number. The members include not only persons working in co-ops but also the collective bodies. At least three collective bodies are required as a minimum for forming a cooperative according to the Cooperative Law. This is based upon the recognition of the cooperative statutes, as the cooperative associates only collective bodies. The statutes can limit membership of the cooperative to persons who fulfil defined requirements, taking into account the subject of the economic activities. For example, membership of a cooperative can be related to the possession of land-agriculture co-ops, possession of cattle-dairy co-ops, the need for housing of dwelling co-ops or the possession of specific qualifications-producers' co-ops (workers' co-ops).

Persons who are going to establish a cooperative have to enact the statutes and to elect the cooperative organs. The election has to be done by the General Assembly of Members or by the Organisational Commission composed of at least three persons. After that the new administration or commission applies to a proper Central Association of Cooperatives to produce a statement on the usefulness (in broad terms) of setting up the cooperative. The Central Association of Cooperatives produces such statement after consultation of the appropriate local authority. Within two months after receiving such a statement the administration of the cooperative delivers its application for registration to the court. In case of a refusal by the Central Association of Cooperatives to produce the statement, the court can take a positive decision following the registration procedure if it considers that the viability of the cooperative guarantees fulfilling the statutory objectives. The compulsory character of asking the Central Association of Cooperatives for a statement on the usefulness of setting up the cooperative is another specific feature of the socialist Cooperative Law. The main objective of such a legal construction is to give the Central Association of Cooperatives and local authorities the power to coordinate the development of the economy as well as to prevent unviable initiatives and failures. In most market economies this latter function is carried out by support organisations who compile feasibility studies, give advice and supply funds. On the other hand, the Polish law in such a construction creates the formal possibility to restrict the economic initiatives of the people and market competition.

In Poland a cooperative is obliged to belong to one of the proper (i.e. in accordance with its economic profile) Central Associations of Cooperatives. The Central Association of Cooperatives is on the one hand a support organisation, but on the other hand it has strong supervisory rights in respect of cooperatives including the formal initiative to liquidate the cooperative in particular cases. On the top of the Polish cooperative movement there is the Head Cooperative Council.

Here again a specific feature consists in the compulsory membership of cooperatives of the Central Association of Cooperatives and their supervisory power in respect of the cooperatives.

A cooperative member is obliged to pay a given and declared value of the shares according to the statute. The shares can be paid as a lump sum or by instalments within defined terms, it can be done cash or by means of successive payments via profit quotas. Shares can be paid in kind or in other assets (for example as production means needed by the cooperative), but always of a monetary value. The shares constitute property of the cooperative and the members share in covering losses in accordance to the value of their shares.

Members can pay also in deposits. The difference between the share and the deposit in Polish cooperatives consists in that paying in deposits is determined by the statute, and members' deposits do not participate in cooperative losses. In case of liquidation of the cooperative any remaining assets after debts and liabilities have been settled, must be transferred to cooperative or social funds - according to the decision of the last General Assembly of Members. In Western countries this rule is accepted by the majority of cooperatives. In Polish Cooperative Law there is no exception from this rule.

From a legal point of view there are only few types of cooperatives in Poland. In case of each type the general regulations described above and specific rules are applied. Specific rules depend on the kind of economic activity of the cooperative. These are:

1. Agricultural production cooperatives based on the collective work of members in agricultural business, as well as manufacturing and service activities within the range defined by the statute.
2. Agricultural circles cooperatives providing services for agriculture and the rural environment. This type associates the Agricultural Circles, i.e. it is the cooperative of collective bodies.
3. Housing cooperatives providing housing for the members and their families as well as organizing cultural activities for the inhabitants.

4. Cooperative banks. Bank law regulates the situation of cooperative bank in a particular way.

5. Handicraft cooperatives organizing supply to members of production means and selling their goods and services.

6. Workers' cooperatives (literally translated: labour cooperatives). Their subject and range of activities is very diversified, but consists mainly in the production of goods and services. The basis of the activities of all kinds of workers' cooperatives is the work of their members. This is why Cooperative Law in a detailed manner regulates the rules of membership and employment. Members of the cooperative have to work in it, and the cooperative is obliged to employ its members. The contract of work is protected by the Cooperative Law. The cooperative cannot break the contract with a member except in three instances: when a member is entitled to retirement, when the Cooperative Council takes a decision to reduce employment owing to economic necessity and in cases of severe negligence of professional duties or of acting against cooperative interests. In case of the latter situation the member is immediately expelled from the cooperative. It should be mentioned in this context that in all cases of a breach of contract the manager of the cooperative has to cooperate with the trade union, provided that such a trade union exists in the cooperative. If the contract is broken without consultation of the trade union, the member can claim redress. The employer can be sued in court. Also, when a member does not agree with the reasons of breaking the contract, he can appeal to the court.

Conclusion

When trying to explain the phenomenon of the high rate of development in the number of cooperatives in the UK and Poland, as well as of its scale, one must point out the evident differences in mechanisms which show similar tendencies although at different scales. It seems that in the UK as in any other Western economy the dynamic growth of the number of workers' cooperatives is on the one hand the result of a difficult situation on the labour market and of the efforts of workers to create new jobs. Sometimes it is the outcome of looking for new alternative solutions and styles of living. On the other hand, it is

influenced by the changing climate surrounding workers' cooperatives. It is sufficient to say that only in the UK there are about 160 support agencies of different types and sizes working at various levels to support the establishment and functioning of cooperatives. The changing attitudes of central and regional authorities as well as such international organisations such as the EEC Commission and agencies of the OECD can be observed. The new situation results in favourable conditions for changes in the legal system of cooperatives as well as in easier access of cooperatives to funds, grants and credits.

Moreover, the situation of cooperatives is not easy, as it is not easy either for any capitalist firm to compete on the market. Cooperatives in EEC countries must not only fight for survival in this competitive market environment and look for market outlets. They must also make efforts to obtain access to credits and grants, to collect sufficient amounts of money for setting up and running a business, but in addition they have to provide for lacking managerial skills necessary for efficient management and also must be prepared for at least suspicious treatment by their economic and social partners¹⁶.

The last two obstacles in the development of cooperatives have been gradually and efficiently minimized by the previously mentioned "new climate" and the activities of support agencies. Hence a brighter outlook for the development of workers' cooperatives in EEC countries may be expected.

It also seems that in Poland and other CMEA countries a greater scale of the cooperative sector reflects the economic, legal and political situation of the cooperative form of ownership. In the scientific and political doctrine recognized in Eastern countries, the cooperative sector is a core socialist sector of activity, so the State creates very favourable conditions for its development. Cooperatives in Poland and other CMEA countries have relatively easier access to credits, more favourable tax systems and support from central cooperative structures.

16 Even trade unions often show their reserves towards creating workers' cooperatives and treat them as the "second class labour market". See Cooperation in the Field of Employment, Local Employment Initiatives, by The Centre for Employment Initiatives, London/Luxembourg 1986, p. 51.

The difficulties encountered by Polish cooperatives are mainly connected with the supply of raw materials and new technology.

The increasing rate of development of workers' cooperatives in Poland in recent years is a result of the market situation. While there is a large market supply gap, which creates exceptionally favourable conditions for small, flexible and competitive workers' cooperatives, there also exists a high rate of inflation which creates pressure for the growth of wages which is easier to achieve in less "controlled" cooperatives than in the state-owned sector.

The final conclusion is that at least in the initial state of reforming the economies in CMEA countries, the further development of workers' cooperatives is an indispensable condition, if the anticipated fruits of contemporary trends in these countries are to be reaped.

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