



Giving as an Investment
Fraternal Societies, Social Capital, and State Interventionism

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Abstract

This paper deals with the importance of social capital for the emergence of voluntary “social insurance”. We apply a theoretical framework of interactions between the government and accumulation of social capital in the society in order to explain the dynamics of one of the most important areas of social policy. We focus mainly on British Friendly Societies in the second half of the 19th century, with explorations of some parallels in the U. S. (fraternal societies) and continental Europe (Jewish association Derech Jeshora in Prague).

Key Words: fraternal societies, health insurance, interventionism, social capital, social insurance, voluntary associations

JEL codes: H41, I38, L31, N43

1. Introduction

The concept of social capital receives still widening attention from social scientists, especially from sociologists and economists. The expansion of its use is so rapid, that it brought some to warn against its misuse and overstating its importance (see Portes, 1998, p. 21). With these caveats in mind, this paper aims to show how the concept of social capital can be used to explain some adverse impact of government social policy.

It has been clear at least from the 1980's, since the publication of Charles Murray's path breaking book *Loosing Ground* (1984), that the Western-style welfare states are running into still deepening problems and that the traditional measures, in spite of efforts of social scientists and politicians and increasing amount of resources, fail to achieve their main goals. Harvard sociologist Nathan Glazer, one of those who helped formulate these welfare policies, summarized this period in his 1988 book *The Limits of Social Policy*. Repeated use of sentences "It didn't work" or "[W]e seemed to be creating as many problems as we were solving" (p. 2) are a leitmotiv of his story.

Today, there is a widespread agreement that it is the structure of incentives and motivations that is crucial for success of any such effort. In order to illustrate this point, we provide a social-capital-based explanation of origins and development of voluntary "social insurance", with special attention to health (or sick) insurance.

This paper builds on ideas presented in an inspiring paper by Carilli et al. (2005). The first part of our present paper describes the theory of government interventionism and provides conceptual framework for the rest of the text. In the second part, we analyze a historical case study of voluntary provision of social insurance by fraternal societies around the turn of the 19th and 20th century.

2. Social Capital

The early uses of the term "social capital" can be ascribed to sociologists. Among them, Pierre Bourdieu is usually credited with its elaboration that led to its widespread use. Bourdieu described social capital in 1986 as

"an attribute of an individual in a social context. One can acquire social capital through purposeful actions and can transform social capital into conventional economic gains. The ability to do so, however, depends on the nature of the social obligations, connections, and networks available to you" (cit. in Sobel, 2002, p. 139).

Although his definition explicitly ties social capital to an individual (and thus makes it an individual asset), its parallel emphasis on the "social context" created much confusion.¹ In this paper, we treat social capital as an individual asset, building on James Coleman's contribution (1988; 1990).

Coleman (1990, p. 306) in an interesting analogy writes about people investing in their social capital as exchanging "credit slips", i.e. confirmations of their mutual obligations. This credit slip is held by the investor (person A, which did something for person B) "to be redeemed by some performance" (*ibid.*) of person B later, and constitutes person A's accumulated stock of social capital. He also points to an analogy between these "credit slips" and "fiduciary money" (*ibid.*, p. 186), both of them having in common the need for trust between the trading parties.

Similar approach is taken by Carilli et al. (2005) or by Leeson (2007). Building on traditional Austrian

¹ One group of authors, perhaps the most prominent among them being Robert Putnam (1993, 2000), stresses the "embeddedness" of social capital, which for them means "features of social organizations, such as networks, norms, and trust, that facilitate action and cooperation for mutual benefit" (Portes, 1998, p. 18). See Portes (*ibid.*) for a critique.

approach to business cycle,² they argue that government creates “artificial” trust or distrust, creating fluctuations in social capital creation, similar to investment changes resulting from altering the market interest rate. In both cases, government interference scrambles market information signals. People, “social capitalists”, then have problem distinguishing between trustworthy individuals and reliable ways of interacting and untrustworthy and unreliable ones. If the government³ creates false expectation of higher trust (for example by even alleged backing up of one of the parties), it can cause the second party to invest too much in this relation (and create “overinvestment”). In the opposite case, it can create distrust and cause people invest too little and make them lose potential benefits from non-realized transactions. Through these fluctuations the government can “add” or “remove” trust from various private activities or individuals, or interfere with them by its own activity and crowd them out. It has been observed on financial markets that the government can in most cases get more favorable loan conditions than any other potential borrower. The most common explanation attributes this to the government’s power to tax.⁴ As a result, it “crowds out” private investments, which are not able to compete. Similarly, many of studies of crowding-out effect in area of private philanthropy explain it on the basis of reduced effort of private charities to raise funds from individuals after they receive a government grant (see for example Andreoni and Payne, 2003). Yet, there might be another theoretical explanation, based on social capital.

We could argue, that private provision of “public goods” involves serious free-rider problems. In case of absence of government, communities usually find a workable and efficient way of provision of these services (see Beito et al., 2002, for an overview). To eliminate free riders, they set up a complex net of self-enforcing rules, i.e. rules that do not require external (governmental) enforcement (Telser, 1980). In the game-theoretical jargon, these rules help to overcome problems of prisoner dilemma connected with the provision of “public goods” (Ostrom, 2000) – they serve as “selective incentives” (Olson, 1965). Social capital usually plays an important role in such systems, as its loss can serve as a punishment for the deceiving party. After the government steps in, in many cases these systems of rules break down and the provision of “public goods” collapses. Thus the government action is in many cases self-fulfilling – expected failures of private systems leads to interventions causing their real failures (Ikeda, 1997). For example Glazer (1988, p. 3) complains about the impact of government social policy on personal social ties: “In our efforts to deal with the breakdown of these traditional structures [which he earlier describes as being ‘located in the family primarily, but also in the ethnic group, the neighborhood, the church’], our social policies were weakening them further and making matters in some important respects worse. [...] Our efforts to deal with distress are themselves increasing distress.”

3. *Friendly and Fraternal Societies*

In the rest of our paper, we analyze institutional setting and functioning of friendly or fraternal societies – voluntary organizations providing diverse kinds of “social insurance” –, with special accent on health insurance. Our analysis is based on three general sources about these societies – Baernreither (1889, “BA”) and Gosden (1961, “G”), analyzing English Friendly Societies, and Beito (2000, “BE”), dealing with American fraternal societies. In the case of a Jewish association Derech Jeschora, we surveyed the archives of Jewish Museum in Prague.⁵

2 See Mises (1996, esp. Chapter XX) or Hayek (1931 and 1941)

3 Even if general surveys (using questions such as “Do you trust your government?”) show in many countries relatively small trust in government, people usually behave differently in reality (for example invest in government bonds in spite of lower yields).

4 See an extensive discussion of crowding-out and crowding-in effects of government deficit financing in Friedman (1978).

5 The resources we were able to get to were very fragmentary. As far as we know, there is no monograph dealing generally with fraternal societies in Central Europe. Therefore, we consider our findings in this case only preliminary and we plan

First Friendly Societies evolved from other kinds of mutual associations, such as medieval guilds, and first fraternal societies in their modern form appeared in England at the end of 17th century (G, p. 2). The golden age of Friendly Societies in England was definitely the 19th century. At this time, Friendly Societies were officially defined as “institutions ‘whose object is to enable the industrious classes, by means of a surplus of their earnings, to provide themselves a maintenance during sickness, infirmity and old age’” (G, p. 15). The term “Friendly Societies” covers a wide array of associations using various insurance methods. The oldest and simplest are “dividing societies”, in which members contributed to a common fund that was after some time divided among the members that survived (BA, p. 172). Some Friendly Societies accepted only members of a particular trade (“particular trade societies”) or living in a specified area (“local town societies”), some were established and endowed by local gentry or clergy (“patronised societies”). Others specialized only on provision of burial insurance (“burial societies”) or experimented with “individual accounts” of their members (“deposit Friendly Societies”). The variety and flexibility of Friendly Societies led Baernreither to the conclusion, that “[a]ny one can make provision in the Friendly Societies for himself or his family, in the manner that suits himself best” (BA, p. 428). But for our purposes the most interesting and important kind of Friendly Societies are “local village and country societies”, where social capital played an immense role and that became a foundation of further development of the fraternal movement.

The number of members of each local country society was usually quite small, reaching tens or at most hundreds of individuals (G, p. 18). Usually only men of various occupations were admitted, but in some cases their insurance covered their family as well. They provided their members with insurance against the disability to work (BA, p. 164). The membership on average included lower-middle class workers and skilled artisans, paying regular levies. The societies were managed by their members themselves, the members in charge were selected by rotation or later by voting. Until 1820’s, “virtually all Friendly Societies were local in their organisation” (G, p. 17), which caused large local differences and, more importantly, made various Friendly Societies very vulnerable to adverse conditions and actuarial risks. As a result, many local societies failed because of “too much benefit for too little contribution” (G, p. 95).

Under such circumstances it is not surprising to see a strengthening tendency to centralization. This tendency was materialized in the emergence of “affiliated orders”, two most important of them being the Independent order of Oddfellows-Manchester Unity (est. 1822) and the Ancient Order of Foresters (est. in 1745, but reorganized in 1834). The orders can be characterized by four features (BE, p.1): (a) an autonomous system of lodges, (b) a democratic form of internal government, (c) a ritual, and (d) the provision of mutual aid for members (and usually also for their families). Over time, as many local societies joined the orders, the membership of the orders skyrocketed.⁶ The orders had a hierarchical structure – lodges, that were to a large extent independent; districts of lodges, serving as “an intermediate court of appeal, and as a supervising authority over the lodges” (BA, p. 379); and the central body or the headquarters. In the area of insurance, the lodges “did not become mere branches of the central organisation, they maintained full control over their own sick funds and management expenses, but [...] a central funeral fund was established” (G, p. 27)⁷ and lodges could in some cases even override rules and decisions of the central body (BE, p. 60). Besides actuarial importance of greater pool of members, their other advantages were more skilled management, more

to extend them in our future research. Our main sources on Derech Jeschora are located in the Archiv of Jewish Museum in Prague (File No. 8437).

6 Baernreither (p. 218) provides these data based on official statistics: (a) for Oddfellows: „About fifty years ago [i.e. around 1835] it numbered 781 lodges, with 47,638 members; at the end of 1886 there were 4,351 lodges, with 617,587 members.“; (b) for Foresters: „In 1845 it numbered 1,456 courts [a different term for a lodge], with 65,909 members; at the end of 1886 it had 5,007 courts, with 667,570 members“. These numbers include members in colonies.

7 In some cases there were central funds to help individual lodges overburdened with sick benefits claims. But their usage was rare and limited to prevent moral hazard on the part of lodges (see BA, p. 282).

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transparent rules and, perhaps most importantly, the possibility to transfer benefits to a different part of the country or even colonies in case the worker moved (G, p. 78). It was mainly the affiliated orders that spread – through their branches – the idea of fraternalism to the United States where it reached its highest point in 1920's, when about every third American was a member of a fraternal society (BE, p. 2).⁸ English example was also important for the continent (Bažantová, 2002).

The idea of insurance itself was not always appealing to an average English workman of the early 19th century. The members “[c]ertainly [...] sought insurance against particular contingencies, but they were seeking much more than this, they were seeking those social and convivial activities which membership was expected to afford” (G, p. 20). This “conviviality” took various forms in local village societies, among the most common being regular meetings (usually monthly with compulsory attendance), annual or biannual feast or Club Day and processions; later in the case of affiliated orders also complex of rituals, many of them kept secret.⁹ The main aim of these activities was to create feeling of unity or belonging, to get to know other members, and to participate on the management of the society. The collection of contributions was also a part of the meetings. The conviviality practices were the most important generator of social capital that the societies used.

An interesting point, that can illustrate the importance of conviviality, can be made about the use of alcohol at the meetings of the societies, as the claims about the excessive drinking was one of the main charges against Friendly Societies by their opponents. Many local village societies were formed “around ale houses” (G, p. 18) and used inns or public houses as their meeting hall. Many societies paid “the rent of the room by buying a pre-arranged quantity of ‘loge liquor’” (G, p. 11). For the money paid they received not only the room and the liquor, but also made their meetings more attractive to ordinary villagers and were able to generate higher amounts of social capital.¹⁰ Simple monetary rent payment would not have these benefits. Many critics feared adverse effects on “morals” or “health” of the members, but as far as our sources are concerned, there is a lack of evidence of such effects.

All providers of insurance have to cope with two major problems – moral hazard and adverse selection (see Hemming, 1984). The first term describes changes in behavior of the insured individual due to change in his motivations (he does not bear full costs of his actions), resulting in higher risk exposure than without insurance; the second term means a higher tendency of high-risk individuals to subscribe for insurance, causing higher prices of insurance and eventually leading to the breakdown of the insurance market. Even if there are some market tools that can help to fix this “market failure” (see the end of Akerlof's 1970 article), it is usually asserted that such tools cannot be used in case of social insurance (and sick insurance especially), because of “peculiar character” of this market (see Arrow, 1963, 1968). But in spite of these theoretical objections, the entrepreneurial spirit of the societies found a way to go.

With regard to moral hazard in the case of sick insurance, the usual market solution is to make the insured individual bear at least a part of the damage. Even if insured, the costs of sickness were still high, because the societies did not pay the whole foregone wage.¹¹ Besides this, they eliminated moral hazard by appeal to “common good” or “friendship” – since the member of the local society or lodge knew each other and belonged to the same social environment, it was difficult for them to free ride on each other (and deceive friends). Conviviality and rituals helped to boost this “sense of

8 This stands comparison with compulsory insurance in Germany and Great Britain, where about 22 % and 30 % of population respectively was covered in 1915 (Rubinow, 1915, p. 231).

9 Secrecy and frequent changes of passwords used by the orders also helped to prevent deterioration of social capital among members – they had to be in contact with each other to keep their information channels open.

10 Alcohol – in certain amount – can serve as a “catalyst” of social interaction. For direct monetary effects of convivial drinking see Peters and Stringham (2006). For a disruptive impact of alcohol prohibition on small town life in the U. S. in the 1920's, see Murphy (1997, Chap.2).

11 According to an official report, cited by Gosden (p. 201), the societies paid their members in case of sickness on average about one third of the amount they would be able to earn.

belonging” (Alborn, 2001). Members receiving sick-payments also had to observe “certain mode of life” (BA, p. 290). Due to a great degree of decentralization, the local societies or lodges were able to use local knowledge together with their large discretionary powers. All three authors also refer to “visiting committees” consisting of other members themselves (selected usually by rotation eliminating principal-agent problem) visiting the sick as the most powerful tool of supervision. They not only checked the appropriateness of sick payments, but also helped members during their sickness, thus creating further social capital. The societies also applied rules preventing fraud and corruption (for example countersigning benefit claims by two officers) and in some cases the ultimate penalty for the deceiving member was expulsion. By this act the member lost not only all future benefits, but also social capital accumulated with the members of the society.¹²

The societies in some cases also employed their own doctors – this “lodge practices” were more common in later periods and in the U. S.¹³ Lodge managers on one hand checked the necessity of sick benefits for particular members, because they wanted to save money and prevent moral hazard; on the other hand they also wanted an effective treatment that will get members off the sick payments as soon as possible. The prevention of moral hazard was also the main reason why even in affiliated orders the individual lodges kept control over their sick insurance. Burial insurance, that does not suffer from the problem of moral hazard as much as sick insurance, was centralized.

Similar creativity was applied to the problem of adverse selection. The insurance provided by the societies was never purely actuarial business, but rather a mixture of actuarial and “social” considerations. All societies formally refused applicants that were below or above certain age, had serious or chronic health problems or were employed in extremely risky occupations (especially mining and railways). But in reality the situation was probably different. Since all members of the local village society or local lodge derived some benefits from social capital, they were willing to accept members that would be non-insurable under strictly actuarial requirements. Considerations of solidarity within a small community also played an important role.¹⁴ We have some evidence about such practices from lodges of affiliated orders. For example Baernreither (p. 377) notes that many lodges – when accepting new members – looked at age, “good character, and a medical certificate of health. On the latter point, however, many lodges are lax”. Beito writes about one of black fraternal hospitals: “[I]t was rare for anyone to be disqualified for preexisting health conditions” (p. 187).¹⁵

The problem of age was partly solved after better actuarial data started to be available. Before the mid of 19th century, the societies had no tool of estimating how much they should charge to an older person joining the society. They solved the problem by imposing minimum and maximum age limits (usually 18 and 40 years) of applicants. After they started to have more reliable data, they differentiated the premiums and allowed even older or younger persons to join.

Of many high-risk occupations, only miners (and sometimes railway workers) had to face consistent obstacles when joining a regular society. A traditional view claims that miners were forced to remain uninsured and bear the immense risks of their occupation. But according to more current research,

12 For the role of social capital in the prevention of fraud see Bernstein (1992), analyzing trade with diamonds in New York City.

13 Lodge practice caused a lot of animosity between the societies and doctors organized in medical societies. The doctors accused lodges of unfair competition and too low prices, but as Beito says in his extensive apology of this practice (p. 109 ff), there always was a doctor that was willing to accept the job. The doctors employed by lodges were able to accept lower monetary payments, because they could introduce themselves to the community and accumulate enough social capital to start their own private practice later on.

14 For example in the case of the Manchester Unity of Oddfellows, „no less than 15 to 20 per cent. of the members do not claim their benefits“ (BA, p. 255). Some lodges also created special funds subsidizing premiums of members (or their stay in schools or hospitals) that were too poor to pay full amounts (cf. BE, p. 67).

15 This cannot be explained by principal-agent problems between lodges and central bodies of affiliated orders, because it was the individual lodges that were responsible for their own sick funds.

in most cases miners created their own societies.¹⁶ The premiums they had to pay were higher than in other societies, because they were reflecting higher risk of disability. We are not going to judge if this situation is “unjust” or not, but it is necessary to realize the implications. As the miners’ premiums are higher, it increases the equilibrium market wage of miners as compared to other occupations.¹⁷ The higher risk is than reflected in higher prices of coal. If the rest of the society is forced to bear the higher risk of miners through compulsory and equalized insurance, it leads to price distortions (causing higher-than-optimal demanded quantity for coal and for miners) and involuntary transfers of resources.

Even the poorer people could get insurance within the fraternal movement. Most Friendly Societies offered graduated premiums entitling to various levels of benefits. Other societies specialized only on low-cost insurance – among the most popular were burial societies. The poor also had other means of insurance – for example their children. Nevertheless, it is impossible to deny that there was always a certain part of population that could not get any insurance at all and had to rely only on the Poor Laws support. This was also the main objection against the system of Friendly Societies by its contemporaries (cf. BA, p. 427). But the picture does not seem to be so gloomy if we take into account a dynamic element of its evolution. It is in the highest interest of the poor to get any kind of insurance, and over time, as the wealth of population increased, they were able to do so. As a consequence, the number of people on Poor Law rates was steadily decreasing.¹⁸ At the beginning, mainly lower-middle class workers were able to pay premiums to the societies, but over time the membership changed. Beito in his book piles one evidence after another proving that in the first decades of 20th century it was the poorest part of the population benefiting most from fraternalism.¹⁹

The relations of the societies to the state were influenced by their specific ideology. Instead of accepting some external ideology (religious or political), many societies created their own ideology of independence. The overwhelming majority of societies were not explicitly religious, in most cases they only required their members to “believe in one God”, but did not care about the exact church affiliation of their members (cf. BE, 27ff). The affiliated orders were often accused of “Deism” by the clergy, because they did not refer to Jesus in their rituals (G, p. 168). Even stronger standoffishness can be found in the relations of the societies towards politics. Baernreither claims, that “from politics [...] all the Friendly Societies rigidly abstain” (p. 397). In the U. S., “‘politics’ was one of the dirty words of fraternalism” (BE, p. 130). In general, the societies entered the political arena only when their interests were threatened by political action (G, p. 65). This changed only slowly and only in the last decades of their existence.²⁰

This avoidance of religious or political appeal by the societies might seem surprising, because com-

16 Benson (1978) provides data showing that during the second half of the 19th century about 30 % of English coal miners were members of registered Friendly Societies, “but nearly every worker seems to have been a member of at least one local unregistered Friendly Society” (*ibid.*, p. 415). In many cases the insurance for miners was partly paid by the employer. Other sources available to these societies were contributions by founders of the societies and honorary members (gentry, clergy, upper-middle class citizens) and contributions by the public in case of mine catastrophes (BA, p. 407). The situation – in spite of contrary popular belief – was similar in Prussia, where miners’ insurance associations served as a model for Bismarck’s system of compulsory insurance. According to available data, “over 80 per cent of [...] workpeople employed in the mines and salt works of the kingdom [of Prussia]” were members of miners’ funds (Dawson, 1912, p. 5).

17 Contributions to Friendly Societies in this case serve as a rough monetary evaluation of the risk connected with the occupation.

18 According to Ritter (1986, p. 136, n. 16) the number of people receiving poor relief in England and Wales decreased from 5,7 % to 2,5 % of population between 1850 and 1900.

19 Similar situation can be seen today in self-help movements in the Third World, for example in education (see Tooley and Dixon, n.d.).

20 See also Beito (p. 139), who describes this period of rising state power: „For fraternalists the course of events increasingly demonstrated that if they did not control the law-writing process, other who were antagonistic to their interests would.“

mon religious or political ideology could achieve similar results in cohesion of the members as conviviality.²¹ But it also had its disadvantages. First of all, by ideological self-definition the societies would exclude part of their potential members, which brings higher costs and actuarial risks. External ideology was also a potential source of conflict that could lead to a break-up.²²

The ideology of most societies can be characterized by the words self-help and independence, “tempered with civility” (BE, p. 30). Self-help was opposition to charity,²³ which at these times always had uncomfortable connotations for a working-man and even “patronised societies” in most cases over time shifted the management to the workers (BA, p. 177). The societies used their conviviality and ritual practices to maintain this ideology and spread it among new members. An important role was played by education, teaching members how to “practise thrift and providence and care for the future” (BA, p. 20).

The relation of the state or government to the Friendly Societies shows a different pattern.²⁴ In England, there are two distinct periods with the breaking point in 1830’s. Before this time, Friendly Societies were looked upon with a certain suspicion, because for many external observers they were undistinguishable from trade unions, whose credit among the general population was low. The prevailing feeling on the part of legislators and other influential persons was paternalism (G, p. 159). Some went as far as to suggest compulsory membership and direct state supervision of the societies. There was a strong belief that the societies are a tool that could relieve the state of many people on Poor Laws relief. From various reasons, the most important perhaps being the lack of information about existing societies and actuarial data and lack of power to enforce these proposals, their real impact was limited (G, p. 161). At the time these information were available, the public attitude had changed and after 1830’s the “English public has had the courage and strength” (BA, p. 143) to give the societies more freedom.

After 1830’s, the societies had a choice – they could get registered and become subject to certain state regulation, or remain unregistered and almost completely out of the realm of the government. Most societies chose the latter. In 1872, the estimated number of all Friendly Societies in England (incl. Wales) was 32,000 with total membership of around 4 million; only 13,000 (i.e. 40 %) of them were registered (G, p. 2 and 7). The refusal to register had its price. In 1875, the list of privileges of registered societies had 17 items (Brabrook, 1885), among others the right to hold land, power to admit members under 21 years, exemptions from stamp duty, power to invest with the National Debt Commissioners with interest rates above the market level, and most importantly legal recognition allowing the society to sue and get legal protection against fraud and corrupt officers. Due to these benefits, the number of registered societies doubled between 1801 and 1872 (G, p. 2) and many unregistered societies disappeared, because they were disadvantaged.

The registration of Friendly Societies was done firstly by local authorities, later – with the establishment of the Registrar of the Friendly Societies in 1846 – became centralized. The unified approach of central registration in many cases brought “a good deal more freedom” for the societies (G, p. 178). The requirements that had to be met in order to obtain and keep registration varied over time, but

21 There is an extensive body of literature related to the impact of religious (esp. Christian and Jewish) institutions on human behavior – for example extending individual’s time horizon by consideration of “afterlife consumption” (Azzi and Eherberg, 1975; in this sense religion itself contains aspect of insurance), or eliminating problems of free-riding by common goal (Iannaccone, 1992) or by the existence of an omniscient judge – the God.

22 So even “[i]ndividuals who were bitter rivals politically could coexist under a common fraternal banner” (BE, p. 30). This non-political aspect of fraternalism creates a challenge for Putnam’s theory of social capital, in which spheres of voluntary and public activities are supposed to be much more interwoven. We thank to Daniel J. D’Amico for drawing our attention to this point.

23 Beito (p. 18) makes a distinction between hierarchical relief (charity) and reciprocal relief (fraternalism).

24 The following text deals with Friendly Societies mainly. Regulation of American fraternal societies and of the societies in Austria-Hungary and later Czechoslovakia shows many similar features as the British regulations. Due to limitations of this paper we will deal with them in separate texts later.

the main remained almost unchanged for the whole 19th century. Firstly, the Registrar limited purposes on which the societies could spend their funds. Thus, “it was quite illegal for any registered society” to spend the funds on conviviality activities, including alcohol (G, p. 17). Some societies got around this ban by hiding conviviality expenses under “management expenditures”, for others it was a main reason why they remained unregistered as such practices “were essential if they were to hold their membership” (G, p. 118, see also BA, p. 301). Nevertheless, the decisive step towards the end of using the societies’ funds in this way did not come from the Registrar, but from the affiliated orders, who became in some cases the leaders of the temperance movement. It seems that at this time (around 1870’s and 80’s) the orders no longer had to rely on the old-fashioned forms of conviviality, that were a precondition of successful development of local and country Friendly Societies.

Second crucial field where the Registrar applied its authority was the problem of financial stability of Friendly Societies. Starting in 1819, local registering authorities required that the tables and rules of each registered society “had been approved by ‘two persons at the least, known to be professional actuaries or persons skilled in calculation’” (G, p. 96). Later the registered societies became subject of revaluations every five years (using their own tables, but approved by the Registrar). A traditional view of the Friendly Societies stresses their fragile financial position in the last decades of the 19th century and uses official data collected by the Registrar as a proof (see Gilbert, 1965, p. 555). For example, the data published by E. W. Brabrook, than the Chief Registrar, in 1885 indicate that “1,537 societies showed a surplus, and 5,030 a deficiency” (Brabrook, 1885, p. 27). We have to have a closer look at the way these data were computed to be able to judge their usefulness. Brabrook admits he took only one sixtieth (picked by random selection) of all the data that were available to the Registrar. But even if he worked with the whole sample, his data would be badly incomplete. The Registrar collected the data by sending forms to registered societies and the return rate was quite low, reaching hardly 60 % in the best years and even in these cases the returned forms were often incomplete (G, p. 13). The forms were filled by the societies themselves and even if the Registrar tried to check its appropriateness, it could hardly do it even in a minority of all cases. Moreover, only a part of all societies was registered and thus under the authority of the Registrar. Therefore, it is utmost problematic to try to derive any general conclusions from such an incomplete set of data. Brabrook himself was aware of this problem:

“It must be borne in mind, however, that nothing is more elastic than the contract made by a Friendly Society with its members; no error more easy of remedy if found out in time than one existing in the original terms of such contract. Hence the words ‘insolvency’, ‘rotteness’, and the like, which we sometimes hear freely used as describing the general condition of Friendly Societies, are utterly out of place.” (Brabrook, 1885, p. 29).

As compared to commercial insurance, friendly and fraternal societies could monetize the benefits their members derived from social capital within the society and if the need arose, could charge them higher premiums quite flexibly. All societies generally tried to avoid creation of large financial reserves – they felt this was against the idea of fraternalism, too much resembled banking business and opened door to corruption (BE, p. 131).²⁵ At that time (given the demographic development) pay-as-you-go systems seemed to be the best practice and even the state insurance proposed in England and realized in Germany relied on them.

The requirement of actuarial evaluation illustrates more general problem of state certification²⁶ – it spread artificial (dis)trust among fraternalists, strengthened by their self-fulfilling expectations – when a society was marked as “in deficit”, members (especially young and perspective ones) could

²⁵ Derech Jeschora seems to be an exception from this rule of avoidance of reserves – it can be explained by its specific ideology (Judaism generally showing less hesitation towards banking and protecting reserves against fraud by closely knit communities perhaps more than fraternalism) or because it operated in different time and place.

²⁶ See Klein (1998).

leave the society for a “better” one. As a result, the “deficit” society often failed. As many of these were low-premium societies insuring the poorest, this regulation might reinforce adverse selection, leaving them uninsured and uninsurable (cf. BE, p. 141 for similar impact of American regulations). It was perhaps these considerations that led Brabrook and his contemporaries to stress their reservations. Unfortunately, later authors usually took the alarming data, but the caveats were “lost in translation”.

An ultimate claim against the friendly or fraternal societies might be: If they were so competitive and entrepreneurial, why did they almost disappear? The reasons are usually numerous and even if there was a case of direct state intervention (as in the case of Derech Jeschora, abolished by Nazi authorities in 1939), it was a culmination of a longer process of decline. The question of the end of fraternalism reveals a lot about the dynamics of state interventionism in social sphere, since the state was substantially involved in all these cases we examined.

The importance of conviviality went slowly down in the case of affiliated orders. But it was still important enough to prevent them from shifting further powers to their central bodies. Around 1900, the state was running a scheme of social insurance in England, but it was voluntary and not too successful.²⁷ The influence of commercial insurance companies, the second main potential competitor of the societies after the government, was growing, but still was relatively weak. In fact, they were not real competitors, as most companies focused only on life and burial policies, leaving sick insurance to Friendly Societies (Alborn, 2001, p. 564). Things changed with National Insurance Act (NIA) of 1911, introducing compulsory sick insurance for overwhelming majority of English population. The reasons that led to this law are described in detail elsewhere (for example Ritter, 1986), we will describe only general outline. Lloyd George, the creator of NIA, was converted to the idea of compulsory insurance after his visit of Germany in 1908 (Hennock, 1987, p. 168). His proposal suited many interests. Politicians saw compulsory insurance as a way to decrease the number of people on Poor Law rates and save public funds. Progressive intellectuals were influenced by the incoming wave of Fabianism and ridiculed the societies as old fashioned and based on self-interest. Many clergymen did not forget old resentments.²⁸ The final resistance could come from the public, still believing in fraternalism, and the societies themselves, as it had happened several times in the past. But not this time. Lloyd George presented NIA to the public as an extension of old fraternal virtues. His General Explanatory Memorandum about NIA praised fraternalism and promised to avoid all shortcomings of the German model (bureaucracy, malingering) through known and time-tested means used for decades by the societies (Hennock, 1987, p. 188). Lloyd George promised Friendly Societies would play the major part in realization of the compulsory scheme. In spite of some warnings, they accepted this offer. Early proposals of NIA basically gave them monopoly in the sphere of health insurance and guaranteed them an inflow of new members. But at the end, this did not happen. In June 1910, industrial insurance companies decided to step in and through skillful lobbying persuaded Lloyd George to limit the privileges of the societies and allow them to compete (Gilbert, 1965). Insurance companies proved to be more equipped for fierce competition and most Friendly Societies could be considered successful if they at least kept their original members. With the arrival of new generations in later years, which had no previous experience with ideas of fraternalism, Friendly Societies lost their battle (Alborn, 2001, p. 588) and after decades of flourishing they began to decline.

27 After voluntary state-operated insurance started in England in 1865, it utterly failed and played only „wholly subordinate part“ as compared to friendly societies (Baernreither, p. 345). In Germany, the situation was different – more than a decade later, Bismarck decided not to rely on voluntary insurance and in spite of „the absence of the active pressure of popular demand“ (Dawson, 1912, p. 2) imposed compulsory insurance on everybody, – in Bismarck’s own words – “to bribe the working classes, or, if you like, to win them over [...] to regard the State as a social institution existing for their sake and interested in their welfare” (cit. in *ibid.*, p. 11).

28 The societies created competition for the church in some respects (provided alternative source of income, brought with them greater choice of leisure time activities and created alternative meeting platform for villagers). From this perspective, the tension between some clergymen and the societies seems to be similar to the attitude of church to “usury” (see Ekelund et al., 1989).

When Beveridge formulated the nationalization of health care through his National Health Service in 1948, he hoped to “preserve room [...] for Friendly Societies” (*ibid.*, p. 566). But at this time they were only a shade of their past glory, unable to conduct this task. Note that the transition from the Friendly Societies to state operated system did not happen directly (due to a high credit the societies had among public and some politicians and general hostility to government management), but with the intermediary step of private insurance companies, making it easier for the state to nationalize the whole industry later.

If there was anything positive from this development, it was the lesson that it taught to the American fraternal movement. Fraternal societies faced similar temptation in 1912 and following years, when American Association for Labor Legislation came with a model of compulsory health insurance combining German and British systems. But fraternalists in the U. S. found powerful allies in commercial insurance companies, a part of organized labor, and – with English, French and German experiences in mind – they resisted (BE, p. 146ff). The way, to use Beito’s words, “from fraternalism to state paternalism” in the U. S. was postponed, but not for long. The general ideological climate was changing and it on many fronts the societies were loosing. New expensive hospital regulations, tax code benefiting fringe benefits and leading to the rise of third-party payment systems, desegregation, federal and state funding of non-fraternal projects, federal restrictions on immigration – these are only few of the challenges the fraternal movement faced in the 1920’s and 30’s. Many of them could be solved as well as in the past, but the societies found themselves caught in new traps – ironically, in the traps they laid themselves. In the first decades of the 20th century, the societies pushed for legislation that regulated their enterprise, forbidding the societies for example insure whole families, write group insurance or combine insurance with bank deposits, and believed it will help them in competition with other insurance providers, (cf. BE, p. 215). The societies wanted to protect themselves “from the corrosive effects of ‘commercialism’” (*ibid.*), but they lost their flexibility, entrepreneurial spirit and zeal instead. From the innovators and pathfinders they became dependent on the state to defend their vested interests. The crisis of the 1930’s and WW2 finished the path of fraternalism in its former scope and even if a few fraternal organizations (schools, hospitals or orphanages) existed well into 1980’s, they never fully recovered.

The membership of Derech Jeschora also experienced a decline during the first decades of 20th century as the compulsory insurance scheme was widened in Czechoslovakia. Also the proportion of members changed – it seems that the purpose of association shifted from mutual support to philanthropy (or from reciprocal to hierarchical relief).²⁹

4. Conclusion

Fraternal movement was uniting hundreds of thousands of individuals through a widespread and dense network of social relations. In England, they were present in almost every village. In the U. S., more individuals belonged to at least one such society “than [to] any other kind of voluntary association, with the possible exception of churches” (BE, p. 2). On the European continent, their presence seems to be rarer, but this might only be a result of a lack of research in this area.

In spite of their importance, they disappeared surprisingly quickly, usually within a couple of decades. The decline of fraternalism shows similarities with the development of other social networks based on trust and reciprocity³⁰ and raises important and disturbing questions about the possibility

²⁹ This was a general tendency in the whole fraternal movement, probably traceable back to the change in attitudes regarding self-help vs. „service“ (BE, p. 217). The membership of Derech Jeshora in Prague was 409 in 1886 (290 honorary members, not entitled to receive any benefits, but paying contributions, and 119 regular members) and around 200 in 1928 (of which was only about 20 regular members; Feder, 1928, p. 192).

³⁰ Cf. Ostrom and Gardner (1993) in the case of self-governing irrigation systems in Asia; or Gruber and Hungermann (2005) examining crowding-out effect between state and private charity during Great Depression.

of partnership between the non-profit sector and the state.

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