

THE FRIENDLY PLANET

Friendly societies and fraternal associations around the English-speaking world, 1840-1925

Volume 1

**A Thesis Submitted for the Degree of
D.Phil in Economic and Social History**

Trinity Term 2015

**Arthur M. Downing
All Souls College**

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Short Abstract

Friendly societies and fraternal associations were self-governing convivial clubs that provided members with mutual aid in case of sickness or death. Over the nineteenth and early twentieth centuries they blossomed around the English-speaking world, attracting millions of members. Combining archival research and quantitative methods, this thesis is the first multi-national economic history of the friendly societies and fraternal associations. How effective were these organisations as insurers? Were they able to overcome the problems of moral hazard and adverse selection? Were they significant in generating 'social capital'? How were they affected by the emergence the welfare state?

Long Abstract

Friendly societies and fraternal associations were self-administered convivial clubs offering members mutual insurance for sickness and death, as well informal benefits. Over the nineteenth century these organisations spread around the English-speaking world, providing millions of wagedworkers with mutual aid. In recent years there has been a growth of interest in friendly societies and fraternal associations. Yet historians remain divided as to the effectiveness of the fraternal insurance model. Social historians have generally argued that the ‘friendlies’ were financially flawed and fragile organisations, reinforcing the Victorian consensus that modernisation and actuarial reform were necessary. On the other hand revisionist and economic historians have suggested that friendly societies and fraternal associations were highly effective and at a very low risk of collapse. This thesis integrates the two approaches, combining archival research with quantitative methods. It also advances the debate by moving beyond a national level perspective and adopting a comparative framework.

In 1860 Nassau Senior, the first Drummond Professor of political economy at Oxford University, wrote ‘almost all [friendly societies] are founded on principles leading to inevitable insolvency’. Generally historians have accepted this view. Chapter 1 analyses the financial viability of individual branches and the impact of ‘actuarial reform’ from the 1840s. Actuarial reform involved a number of organisational, accounting, and financial changes. The most important of these was to move from a pay-as-you-go to a funded plan, and to graduate contributions by age of entry as opposed to charging all members the same. Early societies set contributions too low relative to benefits. This created an unfunded liability that had to be born by subsequent generations. In theory societies could continue to operate as actuarially unsound pay-as-you-go schemes indefinitely. Yet this was contingent on certain conditions holding. A society’s long-term prospects were bleak if admissions fell, lapses rose, and the average age of members increased. Chapter 1 shows that revisionist historians have understated the practical weaknesses of the pay-as-you-go friendly society model. Actuarial reform was both beneficial and necessary; the measures undertaken by the Oddfellows and the Foresters improved the financial position of individual branches, and reduced the probability of their closure.

Chapter 2 utilises a newly compiled panel dataset of friendly societies in New Zealand in the 1870s and 1880s to examine whether branches overcame the problem of moral hazard. Once insured an individual had an incentive to claim benefits and change their behaviour by lowering their sickness threshold. Friendly societies were acutely aware of the problem of moral hazard, or ‘malingering’ as they called it. Regression analysis shows that branches were able to overcome moral hazard in one sense; members did not mechanically respond to higher benefits scales by claiming more. However friendly societies faced diseconomies of scale. Larger, growing, and rural branches had higher claims rates, either because members responded a more fragile system of monitoring, or because they felt less of a sense of obligation to their society. Moreover an increase in the wealth of a society was associated with an increase in sickness claims. This suggests that members adjusted their behaviour in response to a society’s ability to pay, and/or that societies sanctioned more claims when times were good. These two results indicate that members often worked through ill health but were able to claim if a society’s finances were in good health.

In sickness, health and life insurance adverse selection occurs when particularly unhealthy individuals have an increased incentive to purchase cover. A number of historians have argued that friendly societies and fraternal associations were able to overcome this challenge because existing members carefully screened new recruits. Yet by the start of the 20th century, at the aggregate level, almost all friendly societies faced the more pressing problem of an aging population. This suggests that the recruitment process had flaws. Chapter 3 tests the effectiveness of the recruitment process, and whether it contributed to age drift. Using lodge-level records and simulation techniques, I suggest that this aging membership problem was, in part, a consequence of ‘social homophily’. Members tended to recruit individuals of a similar age to them. Therefore as the members of the society aged, so too did the new members, pushing up the average age of the society.

Chapter 4 explores the changing social and cultural character of the friendly society movement. Over the nineteenth century friendly societies underwent dramatic changes, moving from small, localised ‘box clubs’ to large and complex insurance organisations. In turn, societies became more bureaucratic and business-like. Historians disagree as to the timing of this transition. Building up from branch level records chapter 4 argues that the lodge room became socially irrelevant for most members long before any state welfare policies were unrolled; from the mid-nineteenth century lodges ballooned in size, met less frequently, and attendance was persistently low. Very few members engaged in the governance of the lodge and a small clique dominated recruitment. The second section of the chapter situates these developments in an international context. In Australia and New Zealand friendly societies were more sociable at the beginning of the twentieth century. Branches were smaller, they met more frequently, attendance was higher and rituals persisted. There were a number of causes, but pivotal was the relative youth of the movement when compared to Britain and the higher rates of initiation into and migration between branches. Branches were important hubs of social capital in frontier regions, necessitating cultural practices that strengthened the bonds between members and ‘strangers’.

The final two chapters examine the relationship between mutualism and the state. The history of mutual aid organisations is too often rooted in a misleading dichotomy: mutual aid or the welfare state, as if the two were locked in a zero-sum battle. Chapter 5 explores the impact of the British National Health Insurance (NHI) scheme (1911-1947) on a sample of Foresters courts between 1908 and 1923. Under the 1911 Act friendlies became ‘approved societies’ responsible for administering the scheme. A number of historians and economists have argued that this damaged the friendly society movement. It would be more accurate to see the legislation as ushering in an Indian summer for the affiliated friendly societies – a period of temporary success late in life. Crucially branches could sell additional voluntary cover to state members, and they did so with great success. This benefited branches financially. Moreover there is no evidence that the scheme led to an increase in sickness claims. The second half of the chapter explores the development of friendly societies in Australasia between 1900 and 1930.

Chapter 6 examines the rise and fall of fraternal life insurance in the US between 1860 and 1920. Following contemporary commentators, historians have marvelled at the scale and impact of the fraternal movement. Chapter 6 argues against the prevailing consensus. Behind the impressive membership figures lurked some

deeply embedded problems. Like the early friendly societies, fraternal associations operated on a financially flawed ‘assessment’ plan – pay-as-you-go in nature. Destructive competition for members and adverse selection crippled a number of societies. The American Oddfellows even dismantled its sickness benefit scheme after it was deemed unfit for purpose. By the 1890s most societies acknowledged that to survive they would have to move over to a funded model, but the inability of societies to cooperate delayed the process of reform. Fraternal associations eventually turned to legislation as a solution, but there were bitter disputes over what form it should take. Legislation was eventually enacted state-by-state from 1912, forcing societies off the assessment plan and subjecting them to periodic valuations. Once fraternal associations were no longer permitted to operate on a pay-as-you-go basis they ceased to be competitive and fell into terminal decline. A comparison with Britain reveals that this decline and fall was not inevitable. In Britain the state actively supported the friendly societies, through the Registrar, and encouraged actuarial reform.

For Mick and Sylvia

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That Odd-fellowship's motto – the blest and unerring –
Is “We help ourselves most, when we help one another”

Eliza Cook, *Oddlines for “Oddfellows”*, 1814 to 1828.¹

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¹ R.W. Moffrey, *A Century of Oddfellowship: Being a Brief Record of the Rise and Progress of the MUIOOF* (Manchester, 1910), pp.208-209.

Abbreviations

| | |
|--------|---|
| AFA | Associated Fraternities of America (US) |
| AJHR | Appendices to the Journal of the House of Representatives for New Zealand |
| AMC | Annual Moveable Committee |
| AOF | Ancient Order of Foresters |
| AOUW | Ancient Order of United Workmen |
| CHI | Compulsory Health Insurance |
| FHT | Foresters Heritage Trust (Southampton) |
| GL | Grand Lodge (State Jurisdiction in US fraternal associations) |
| GM | Grand Master (official position in the Oddfellows) |
| HACBS | Hibernian Australasian Catholic Benefit Society |
| HCM | High Court Meeting |
| IOOF | Independent Order of Oddfellows (American) |
| IOR | Independent Order of Rechabites |
| ML | Mitchell Library (Sydney) |
| MUIOOF | Manchester Unity Independent Order of Oddfellows |
| MUQR | Independent Order of Oddfellows, Manchester Unity, Friendly Society Quarterly Reports |
| MWA | Modern Woodmen of America |
| NBA | Noel Butlin Archives (Canberra) |
| NFC | National Fraternal Congress (US) |
| NHI | National Health Insurance |
| NLA | National Library of Australia (Canberra) |
| NPF | National Provident Fund |
| OOA | Oddfellows Online Archive (Manchester Unity) |
| UAOD | United Ancient Order of Druids |

Introduction

Between 1850 and 1920 friendly societies and fraternal associations blossomed around the English-speaking world. In Britain there were 6 million members of friendly societies in 1904.¹ In 1898 the Chief Registrar of friendly societies, E.W. Brabrook, argued that the rise of these mutual aid organisations was ‘one of the great glories of the Victorian era’.² Brabrook and numerous other commentators paid little attention to similar developments elsewhere in the English-speaking world. In New Zealand it has been estimated that 22% of all adult males were friendly society members in 1914. Across the Tasman Sea in Australia ‘friendlies’ were serving well over 30% of the population.³ John Frome Wilkinson, one of the first historians of the friendly society movement, commented that the formation of the Oddfellows in Manchester in 1810 was a moment ‘fraught with almost world-wide after consequences’.⁴ It was a reasonable claim; in 1900 the organisation had 820,000 members in the UK, 95,000 dotted around the British Empire, and there were a further 1 million Oddfellows in North America. The Oddfellows were the largest voluntary organisation in the English-speaking world, and possibly the largest on the planet. In 1847 Henry David Thoreau commented that ‘America has dwindled into an Odd Fellow’.⁵ Yet the Oddfellows were just one of the many fraternal insurance organisations that boomed in the late nineteenth century. In 1897 10% of the entire US population participated in one of the major national fraternal orders, and this figure was as high as 40% in some states. In 1906 Charles Harger predicted that ‘so rapidly does the fraternal order increase in popularity that it shows little indication of ever wielding less power over men’s destinies than it does now’.⁶

Friendly societies and fraternal associations were self-administered convivial clubs offering members mutual insurance for sickness and death, as well informal

¹ S. Cordery, *British Friendly Societies, 1750-1914* (Basingstoke, 2003), p.1.

² E.W. Brabrook, *Provident Societies and Industrial Welfare* (London, 1898), pp.219-20.

³ E. Olssen, ‘Friendly Societies in New Zealand, 1840-1990’, in M. van der Linden *et al.* (eds.), *Social Security Mutualism: The Comparative History of Mutual Benefit Societies* (Bern, 1996), p.183; D. Green and L. Cromwell, *Mutual Aid or Welfare State: Australia’s Friendly Societies* (Sydney, 1984), p.xiv.

⁴ J.F. Wilkinson, *Mutual Thrift* (London, 1891), p.66.

⁵ H.D. Thoreau, ‘Resistance to Civil Government’, quoted in W.D. Moore and M.A. Tabbert (eds.), *Secret Societies in America: Foundational Studies of Fraternalism* (New Orleans, 2011), p.v. Hereafter *Secret Societies*.

⁶ Quoted in D. Beito, ‘“This Enormous Army”: the Mutual Aid Tradition of American Fraternal Societies before the Twentieth Century’, *Social Philosophy and Policy*, 14, 2, (1997), p.38.

benefits.⁷ This broad definition covers everything from white-collar Freemasonry in the US to the huge ‘collecting’ friendly societies in Britain. This thesis focuses exclusively on British ‘affiliated’ friendly societies and branch based fraternal associations that offered members formal insurance. The defining characteristics of both types of organisation were a system of autonomous branches, democratic internal government, ritual practices, and the formal provision of mutual-aid for members on a not for profit basis.⁸ All affiliated friendly societies and fraternal associations combined these elements but the relative weight placed on each feature varied.⁹ For example the American fraternal were more ritualised than the British affiliated societies and generally focussed on death benefits rather than sickness insurance.¹⁰ Yet historians have overlooked broader similarities. Many fraternal associations in the US were British imports.¹¹ In 1900 the American actuary Abb Landis wrote that:

‘The same underlying principles govern the business operation of Friendly Societies and Fraternal orders. Both are conducted on the “Lodge system” under almost identical social conditions. Both must provide funds from the contributions of members, and both collect these funds by monthly or quarterly assessments. The costs of benefits to both are subject to the same laws of nature, which increase that cost with advances in age. The same provisions must be made by both to meet present and future cost of benefits promised. It follows, therefore, that the experience is very material to the other’.¹²

In the US a large body of literature has emerged trying to explain what W.S. Harwood termed the ‘Golden Age of Fraternity’.¹³ Most historians have proceeded

⁷ Cordery, *British Friendly Societies*, p.13; Fraternal and friendly societies were ‘expressive organisations’ designed to meet the social, financial and personal needs of members as opposed to ‘instrumental’ voluntary organisations, like charities, that aim at achieving a goal and thus mediate between members and the outside world, see L. Dumenil, *Freemasonry and American Culture* (Princeton, 1984), p.xi.

⁸ P.H.J.H Gosden, *Self-help: Voluntary Associations in the Nineteenth Century* (London, 1974), pp.27-30, 39-76; Beito, “‘This Enormous Army’”, p.21; E.E. Buffman, *Modern Woodmen of America: A History*, vol. 2 (Rock Island, 1935), pp.4-5; A. Stevens, *The Cyclopaedia of Fraternities* (New York, 1907), pp.vi-vii, 70-72, 388-394; T. Skocpol, M. Ganz, and Z. Munson, ‘A Nation of Organizers: The institutional Origins of Civic voluntarism in the United States’, *American Political Science Review*, 94, 3, (2000), pp.531-533.

⁹ One contemporary expert broke these bodies into 11 types, Stevens, *Cyclopaedia*, pp.xvi-xv.

¹⁰ R.W. Moffrey, *A Century of Oddfellowship: Being a Brief Record of the Rise and Progress of the MUIOOF* (Manchester, 1910), pp.33-47.

¹¹ A. Stevens, ‘Fraternal Insurance’, *Review of Reviews*, 21, (1900), in *Secret Societies*, pp.216, 218.

¹² A. Landis, *Friendly Societies and Fraternal Orders* (Winchester, 1900), pp.16-17 and 3.

¹³ W.S. Harwood, ‘Secret Societies in America’, *The Atlantic Review*, 164, (May, 1897) in *Secret Societies*, p.7; Notable contributions include, A.M. Schlesinger, ‘Biography of a Nation of Joiners’, *American Historical Review*, 50, 1, (1944), pp.15-25; M.A. Clawson, ‘Fraternal Orders and Class Formation in the Nineteenth-Century United States’, *Comparative Studies in Society and History*, 27, 4, (1985), pp.672-695;

on the assumption that there was something exceptional about the US; that the phenomenon of millions of individuals flocking to voluntary ‘self-help’ organisations was peculiarly American.¹⁴ Yet participation rates in friendly societies were comparable in Britain, Australia and New Zealand (see **figure 0.1**).

The popularity of fraternal associations and friendly societies was a consequence of a simple yet intractable problem: Loss of income due to illness, injury or death was one of the greatest risks to a wage earner’s household’s standard of living.¹⁵ In the absence of commercial insurance and state welfare programmes a patchwork of protection emerged.¹⁶ Mutual aid organisations were one of the most important forms of insurance in the ‘mixed economy of welfare’. For a modest fee they provided members with benefits in case of sickness, access to medical care, and a lump sum pay out on death. These organisations were first and foremost insurers, and consequently this thesis focuses almost exclusively on their economic function.

The following case studies are united by two interrelated questions. Firstly, how effective were friendly societies and fraternal associations as insurers? Secondly, why did these organisations fall into decline over the twentieth century?

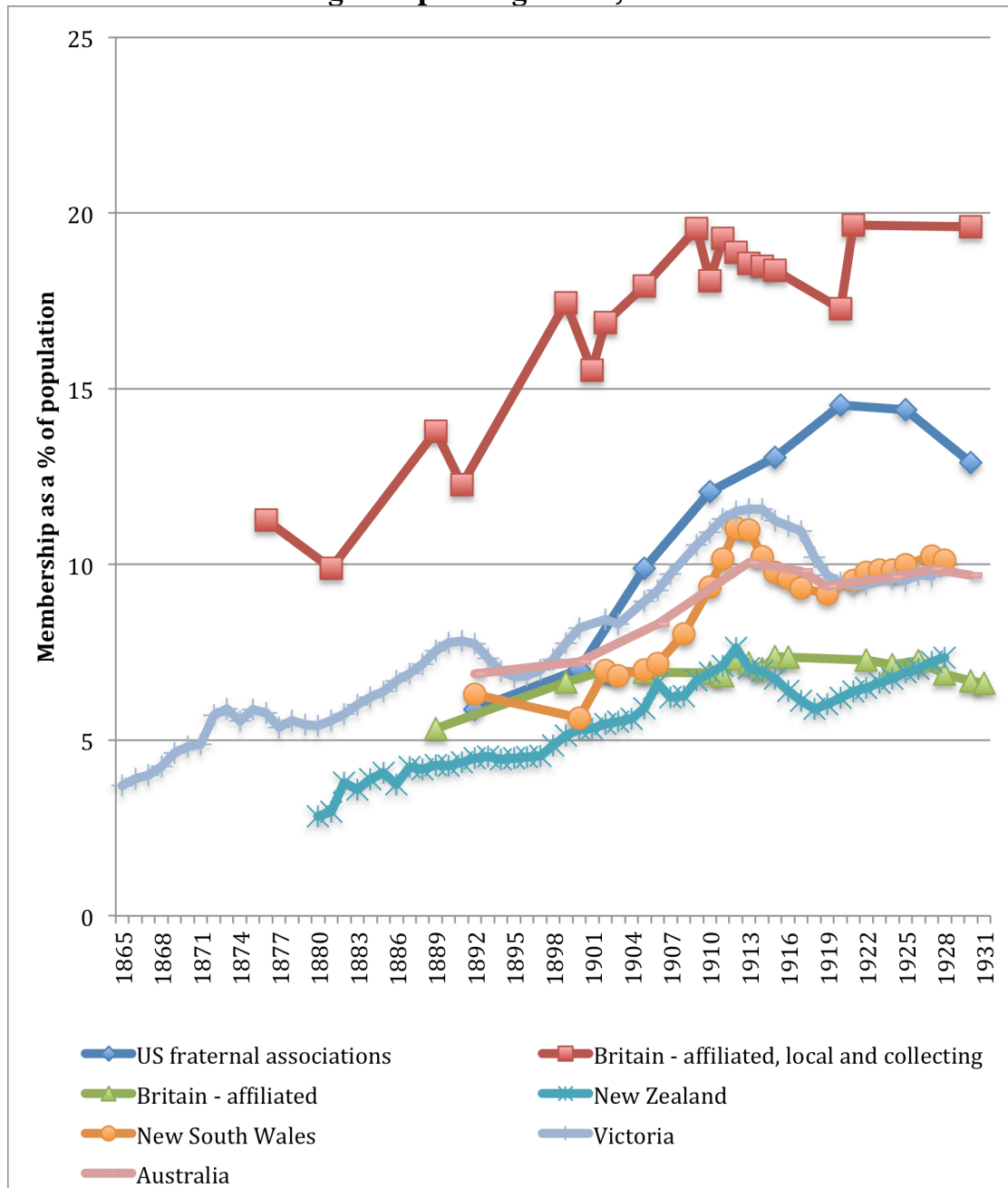
G. Gamm and R.D. Putnam, ‘The Growth of Voluntary Associations in America, 1840-1940’, *Journal of Interdisciplinary History*, 29, 4, (1999), pp.511-557; Beito, “‘This Enormous Army’”; Skocpol, *et al.*, ‘A Nation’, pp.527-546; E. Crowley and T. Skocpol, ‘The Rush to Organize: Explaining Associational Formation in the United States, 1860s-1920s’, *American Journal of Political Science*, 45, 4, (2001), pp.813-829; R. Putnam, *Bowling Alone: the Collapse and Revival of American Community* (New York, 2000), pp.367-401; H.W. McBride, ‘The Golden Age of Fraternalism: 1870-1910’, *Heredom: The Transactions of the Scottish Rite Research Society*, 13, (2005), p.2; J. Kaufman, *For the Common Good? American Civic Life and the Golden Age of Fraternity* (Oxford, 2002).

¹⁴ As expressed in M. Lehman, ‘It takes three to make a lodge’, *Nation’s Business*, 37, (September, 1949), in *Secret Societies*, p.65.

¹⁵ S. Horrell and D. Oxley, ‘Work and Prudence: Household Responses to Income Variation in Nineteenth-Century Britain’, *European Review of Economic History*, 4, 1, (2000), p.27.

¹⁶ B. Harris and P. Brigden, (eds.), *Charity and Mutual Aid in Europe and North America since 1800* (New York, 2007), p.2.

Figure 0.1: Participation rates in fraternal associations and friendly societies around the English-speaking world, 1863-1930.



Source: B. Harris, *The Origins of the Welfare State: Social Welfare in England and Wales, 1800-1945* (Basingstoke, 2004), pp.82-83, 194; B.R. Mitchell and P. Deane, *Abstract of British Historical Statistics* (Cambridge, 1962), pp.6-10; successive volumes of 'Statistics of Friendly Societies', in *The Statistical Register for the colony of Victoria* (ML.Q319 2/V), 1870-1900; *Official Year Book of the Commonwealth of Australia*, No.1 to No.27, 1908-1934; Green and Cromwell, *Mutual Aid*, pp.217, 221; W. Vamplew, *Australians, Historical Statistics* (Broadway, NSW, 1987), pp.26-39; S. Cordery, 'Mutual Benefit Societies in the United States: A Quest for Protection and Identity', in van der Linden, (ed.), *Social Security Mutualism*, p.109; M.R. Haines and R. Sutch, 'Population: 1790-2000 [Annual Estimates]', Table Aa6-8, in S. Carter et al. (eds.), *Historical Statistics of the United States: Earliest Times to the Present* (New York, 1997), accessed 12/06/2015 at [<http://hsus.cambridge.org/HSUSWeb/toc/showChapter.do?id=Aa#>]; G.T. Bloomfield, *New Zealand: A Handbook of Historical Statistics* (Boston, Mass, 1984), pp.44-46, 414-415. Note: Figures for Australia, New South Wales, Victoria and New Zealand refer to affiliated societies.

Research into these organisations has expanded over the last fifty years, but given the scale of participation it is understandable that a number of historians feel that the topic has not attracted the attention it deserves.¹⁷ In recent years there has been a growth in interest in mutual aid organisations as part of a broader debate about the origins of the ‘welfare state’. In 1931 the American Progressive activist IM Rubinow argued that state administered social security was a logical response to the failures of mutualism.¹⁸ This interpretation had roots in the Victorian period, when a number of actuaries and commentators argued that friendly societies were financially flawed. Most societies were established before the advent of actuarial science and invariably contributions were set too low relative to benefits. Moreover most societies charged all members the same fee regardless of age. In 1860 Nassau Senior, the first Drummond Professor of political economy at Oxford University, wrote ‘almost all are founded on principles leading to inevitable insolvency’.¹⁹ Generally historians have accepted this view. In his pioneering work PHJH Gosden argued that a large number of early societies set contributions too low and that this remained a problem until the late nineteenth century.²⁰ In the most recent monograph on the British friendly societies Simon Cordery has reiterated this argument, writing that ‘early practice such as admitting members regardless of age or health, and the unavoidable use of inaccurate tables of contributions and benefits, established an inherent insolvency which time would reveal’.²¹ From this perspective friendly societies were right to accept the advice of actuaries and undertake financial reform.²² Abram De Swaan has also suggested that most organisations were too small and actuarially flawed.²³ In a seminal account Bentley Gilbert argued the friendly societies were financially fragile at the turn of the twentieth century due to their inability to cope with the burden of aging members claiming sickness benefits as de-facto pensions.²⁴ In a broader study of

¹⁷ Cordery, *British Friendly Societies*, p.11; Green and Cromwell, *Mutual Aid*, pp.xiv-xviii; G. Blainey, *Odd Fellows: A History of IOOF Australia* (Sydney, 1991), pp.vii–viii; E. Hobsbawn, ‘Friendly societies’, *Amateur Historian*, 3, 3, (1957), p.98.

¹⁸ I.M. Rubinow, ‘Conflict of Public and Private interests in the field of social insurance’, *Annals of the American Academy of Political and Social Science*, 154, (March, 1931), p.111.

¹⁹ Cordery, *British Friendly Societies*, p.134.

²⁰ Gosden, *Self-help*, pp.50-59; Cordery, *British Friendly Societies*, p.151.

²¹ Cordery *British Friendly Societies*, p.176, see also, 125, 130-131.

²² *Ibid.*, pp.125-134, 142-151.

²³ A. De Swaan, ‘Workers’ and Clients Mutualism Compared: Perspectives from the Past in the Development of the Welfare State’, *Government and Opposition*, 21, 1, (1986), pp.36-55.

²⁴ B. Gilbert, ‘The Decay of Nineteenth-Century Provident Institutions and the Coming of Old Age Pensions in Great Britain’, *The Economic History Review*, 17, 3, (1965), pp.551-563; see also B. Gilbert,

the origins of the welfare state Bernard Harris noted that ‘it would be wrong to assume that.... these organisations represented a viable alternative to the development of statutory welfare provision’, even though many continued to grow in size.²⁵ Outside the British Isles Tim Guinnane and Jochen Streb have argued that German sickness insurance cooperatives (*Knappschaften*) were unable to overcome the problem of moral hazard (opportunistic claiming).²⁶ Finally in the case of the US Jason Kaufman has suggested that fraternal associations were effectively operating as ‘Ponzi schemes’; because they charged inadequate contributions they required a constant influx of new members to survive.²⁷

According to David Beito, Lawrence Cromwell and David Green this ‘liberal’ narrative has it the wrong way round; friendly societies and fraternal societies were remarkably effective organisations ‘elbowed out’ by an inefficient welfare state.²⁸ Quantitative research has generally reinforced this ‘optimistic’ interpretation. In the case of the US Daniel Gottlieb has used household surveys to argue that fraternal insurers overcame the problem of adverse selection.²⁹ A number of historians have gone further and argued that Victorian actuaries were fundamentally wrong. Using sophisticated econometric methods to analyse a sample of lodges of the Oddfellows in British Columbia, George and Herbert Emery have argued that friendly societies were financially viable and at an extremely low risk of collapse.³⁰ Nicholas Broten has reinforced Emery’s conclusions, employing the same methodology and focusing on a sample of courts of the English Foresters.³¹ Whilst conceding that in the early years of

The Evolution of National Insurance in Great Britain: The Origins of the Welfare State (London, 1966), pp.170-171.

²⁵ Harris, *The Origins*, p.84.

²⁶ T.W. Guinnane and J. Streb, ‘Moral Hazard in a Mutual Health Insurance System: German Knappschaften, 1867-1914’, *Journal of Economic History*, 71, 1, (2011), pp.70-104.

²⁷ Kaufman, *For the Common Good?*, p.47.

²⁸ Green and Cromwell, *Mutual Aid*; D. Beito, *From Mutual Aid to the Welfare State: Fraternal Societies and Social Service, 1890-1967* (Chapel Hill, 2000); see also D. Green, *Working-Class Patients and the Medical Establishment, Self-help in Britain from the Mid-nineteenth Century to 1948* (Aldershot, 1985), p.2.

²⁹ D. Gottlieb, ‘Asymmetric information in late 19th century cooperative insurance societies’, *Explorations in Economic History*, 44, 2, (2007), pp.270–292.

³⁰ G. Emery and H. Emery, *A Young Man’s benefit: the Independent Order of Odd Fellows and Sickness Insurance in the United States and Canada, 1860-1929* (Montreal, 1999); H. Emery, ‘Risky Business? Nonactuarial Pricing Practices and the Financial Viability of Fraternal Sickness Insurers’, *Explorations in Economic History*, 33, 2, (1996), pp.195-226.

³¹ N. Broten, ‘From sickness to death: the financial viability of the English friendly societies and coming of the Old Age Pensions Act, 1875-1908’, LSE, Economic History Working Papers, 135/10 (2010); N. Broten, ‘From Sickness To Death: Revisiting the Financial Viability of the English Friendly Societies’, in Harris (ed.), *Welfare and Old Age*, pp.107-120.

the movement many societies set contributions too low, Riley has suggested that actuaries were too pessimistic in their forecasts and that by the end of the nineteenth century most organisations were in a financially healthy state.³² More recently Penelope Ismay has argued that actuarial valuations were inappropriate for the pay-as-you-go friendly society model, and that branches of the Oddfellows were safe from closure.³³ John Macnicol has gone even further and suggested that the evidence that societies were insolvent was an ‘actuarial construct’ and a ‘red herring’.³⁴

Social historians like Gosden, Gilbert and Cordery based their conclusions on qualitative material, archival research and an in depth historical understanding of how friendly societies functioned at the branch level. In contrast ‘cliometric’ economic historians like Emery and Gottlieb have applied quantitative methods and concepts from micro-economic theory. The following chapters integrate these two approaches. All of the case studies make extensive use of newly compiled data sets and quantitative methods. However in many ways this thesis is a ‘traditional’ social history in that it is grounded in the archives. Moreover I have sought to avoid the anachronistic application of economics. Econometric methods are a powerful tool for evaluating the effectiveness of these organisations, but it is important to understand whether members *perceived* their societies to be financially viable. Economic theory can help us understand how friendly societies and fraternalists operated as insurers. Yet it is important to balance the application of economic concepts with a historical understanding of how these organisations changed over time.³⁵ Finally, whilst this thesis is primarily concerned with the economic function of the movement I have endeavoured to avoid crude economic reductionism. Members sought fellowship and sociability as well as insurance and it is impossible to understand the success and decline of the friendly societies without exploring this avenue.

The following case studies bring new archival research to bear on the history of the British friendly societies. Early historians of friendly societies, like Gosden,

³² J. Riley, *Sick, Not Dead: The Health of British Workingmen During the Mortality Decline* (Baltimore, 1997), pp.149-150.

³³ P. Ismay, ‘Between Providence and Risk: Odd Fellows, Benevolence and the Social Limits of Actuarial Science, 1820s-1880s’, *Past and Present*, 226, 1, (2015), pp.116-120, 123, 134-5, 145.

³⁴ J. Macnicol, *The Politics of Retirement in Britain, 1878-1948* (Cambridge, 1998), pp.116-125.

³⁵ I have tried to follow the model example set in J. Humphries, *Childhood and Child Labour in the British Industrial Revolution* (Cambridge, 2010), pp.12-48.

tended to rely on national level records, falsely believing that very few local branch records survived.³⁶ The pioneering work of David Neave and Audrey Fisk demonstrated that this was not the case.³⁷ The Oddfellows and the Foresters generated large volumes of archival material, much of which has remained unused. Thanks to the efforts of Walter Cooper, Audrey Fisk, Roger Logan (in the case of the Foresters) and Malcolm Bee (in the case of the Oddfellows) branch records have been collected in archives in Southampton and Manchester.³⁸ In the case of the Oddfellows most of this material has been digitised. The directories of the Foresters and the Oddfellows are particularly rich sources containing valuable statistical information on individual branches. Moreover each branch was assigned a unique identification number, making it possible to trace the development of branches over time. James Riley is the only other historian to have systematically analysed the directories.³⁹ Finally, I have made use of material collected by successive Registrars of friendly societies. The Registrars' office amassed vast quantities of data on the financial condition of individual societies, especially after 1875 when registered societies had to undertake quinquennial valuations. The valuation returns are an underused source, no doubt because of the almost unmanageable volume of data they contain. Advances in information technology makes it much easier to handle this type of source material today than when Gosden conducted his ground breaking work.

This thesis also contributes to our understanding of friendly society and fraternal associations by moving beyond a national level perspective and adopting a comparative approach. Taken together these case studies represent the first multi-national history of these organisations, although I have not attempted to write a coherent narrative of their rise and fall. Historians of British friendly societies have overlooked the geographical expansion of the movement and the trans-national

³⁶ P.H.J.H. Gosden, *The Friendly Societies in England, 1815-1875* (Manchester, 1961), p.245; Hobsbawn, 'Friendly Societies', p.98.

³⁷ D. Neave, *Mutual Aid in the Victorian Countryside: Friendly Societies in the rural East Riding, 1830-1914* (Hull, 1991), pp.6-7; A. Fisk, *Mutual Self-help in Southern England* (Southampton, 2006), pp.1-3; D. Neave, 'The local records of affiliated Friendly Societies', *Local Historian*, 16, 3, (1984), pp.161-7; The Friendly Society Research Group at the Open University has continued this work.

³⁸ Foresters Heritage Trust Archive (FHT) in Southampton and Oddfellows Online Archive (OOA).

³⁹ Riley, *Sick, Not Dead*. The directories are located in the FHT and the OOA. The FHT contains a complete record of directories every year between 1846 and 1934. The directories of the Oddfellows are less complete. Between 1841 and 1934 there are directories available for the following years: 1841, 1842, 1844, 1845, 1846, 1850, 1852, 1858, 1860, 1862, 1864, 1866, 1868, 1870, 1873, 1874, 1875, 1877, 1877, 1878, 1879, 1887, 1891, 1892, 1894, 1895, 1896, 1897, 1901, 1907, 1913, 1914, 1919, 1921, 1922, 1924, 1925, 1926, 1927, 1928, 1929, 1930, 1931, 1932, 1933, 1934.

nature of organisations like the Oddfellows and the Foresters. Between 1870 and 1914 these orders spread around the globe, and were particularly successful in settler societies like Australia, New Zealand and Canada; regions which James Belich has argued were ‘British Wests’, analogous to the American West.⁴⁰ The maps in **figures 0.2** and **0.3** (at the end of this introduction) testify to the extraordinary geographical expansion of the Oddfellows and the Foresters. By 1914 the two organisations had 1,279 and 935 branches outside of the British Isles. This translated into just over 59,000 members in North America, 128,000 in Australia and 39,000 in New Zealand in 1913 (see **table 0.1**).⁴¹ If globalisation is not only the physical conquest of distance, but also an intensification in consciousness of the globe as a whole, then on both counts affiliated friendly societies were globalised organisations.⁴² After the South Africa War, the Grand Master of the British Oddfellows claimed that the order had ‘done as much as anything else to cement together the English speaking world’.⁴³ In February 1845 a Toronto official of the Independent Order of Rechabites, another affiliated society, sent a letter to the head office in Manchester proclaiming that the movement was ‘not national or sectarian, but universal, in its adaptation, disdaining to be circumscribed by geographical boundaries or political institutions’.⁴⁴ These statements contradict Paul Johnson’s argument that friendly societies accentuated the particularism of localities.⁴⁵

In his pioneering work PHJH Gosden acknowledged that he had overlooked the international success of the friendly societies, and left it for later scholars to fill the gap.⁴⁶ Since then there have been a steady growth in studies of mutual aid organisations in a number of countries. Marcel van der Linden and Bernard Harris

⁴⁰ J. Belich, *Replenishing the Earth: the Settler Revolution and the rise of the Anglo-world, 1783-1939* (Oxford, 2009), pp.69, 79-105.

⁴¹ Themes I have explored in A. Downing, ‘The Friendly Planet: ‘Oddfellows’, networks, and the ‘British World’ c.1840-1914’, *Journal of Global History*, 7, 3, (2012), pp.389-414.

⁴² G.B. Magee and A.S. Thompson, *Empire and Globalization: Networks of People, Goods and Capital in the British World, C.1850-1914* (Cambridge, 2010), p.111.

⁴³ *Independent Order of Oddfellows, Manchester Unity, Grand Annual Moveable Committee, 12th -16th June 1905*, p.28 (OOA).

⁴⁴ R. Hight, *Rechabite History: A record of the origin, rise and progress of the Independent Order of Rechabites (Salford Unity)* (Manchester, 1936), pp.84-5.

⁴⁵ P. Johnson, *Saving and Spending: The Working-Class Economy in Britain* (Oxford, 1985), pp.10, 227-33.

⁴⁶ Gosden, *The Friendly Societies*, p.12.

Table 0.1: Membership of Oddfellows and Foresters in North America and Australasia in 1913-1914.

| Region | Foresters | | Oddfellows | |
|-------------|-----------|-----------------------------|------------|-----------------------------|
| | Members | % Outside the British Isles | Members | % Outside the British Isles |
| Canada | 20482 | 19.63 | 5814 | 3.99 |
| US | 16182 | 15.51 | 17041 | 11.70 |
| Australia | 41657 | 39.92 | 87217 | 59.87 |
| New Zealand | 16847 | 16.14 | 23128 | 15.88 |
| Total | 95,168 | | 133,200 | |

Source: *A list of the Lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1913* (Manchester, 1913), p.509, members as of December 1912 (OOA); *Directory of the Ancient Order of Foresters Friendly Society for 1914*, p.663, members as of December 1913 (FHT).

have edited collections covering a large number of countries.⁴⁷ However contributors tended to focus on a single country and limited space was dedicated to comparison.⁴⁸ Australasian historians have been most attuned to the international expansion of the British-style friendly societies. In the case of Australia there has been one monograph on the subject by Green and Cromwell and a number of unpublished theses.⁴⁹ Green and Cromwell's book is a good introduction but has a number of shortcomings stemming from the authors' explicit desire to demonstrate that friendly societies were a viable alternative to the welfare state.⁵⁰ In the case of New Zealand friendly societies received very little attention until recently. In his influential social history of the late nineteenth century Miles Fairburn only dedicated a few pages to the subject and argued that friendly societies were relatively insignificant and fragile organisations. David Thomson has also argued that the 'friendlies' were unimportant in the in the 'mixed economy' of colonial welfare. Thomson's bold conclusions are based on a very short discussion and a heavy reliance on aggregate membership figures.⁵¹ Jennifer Carlyon's unpublished dissertation represents the first comprehensive history of the

⁴⁷ Linden, *et al.* (eds.), *Social Security Mutualism*; B. Harris (ed.), *Welfare and Old Age in Europe and North America: The Development of Social Insurance* (London, 2012).

⁴⁸ M. Dreyfus, 'The labour movement and Mutual Benefit Societies', in van der Linden, *et al.* (eds.), *Social Security Mutualism*, pp.673-683.

⁴⁹ M. Aveling, 'The Australian Natives Association, 1871-1900', (Monash University, Ph.D thesis, 1970); R. Nobbs, 'Ventures in Providence: the Development of Friendly Societies and Life Assurance in 19th Century Australia', (Macquarie University, Ph.D thesis, 1978); N. Renfree, 'Migrants and Cultural Transference: English Friendly Societies in a Victorian Goldfield Town', (La Trobe University, Ph.D thesis, 1983); Green and Cromwell, *Mutual Aid*.

⁵⁰ Green and Cromwell, *Mutual Aid*, p.viii-ix.

⁵¹ M. Fairburn, *The Ideal Society and its Enemies: the foundation of modern New Zealand, 1850-1900* (Auckland, 1989), pp.178-182; D. Thomson, *A world without welfare: New Zealand's colonial experiment* (Auckland, 1998), pp.35-41.

friendly societies in New Zealand, marking an important breakthrough.⁵² Yet Carlyon, like other historians of friendly societies in Australia and New Zealand, avoided comparative analysis. Similarly the study of friendly societies in Britain and Australasia and fraternal associations in North America remains almost entirely disconnected. There are some notable, if brief, exceptions. Martin Daunton has undertaken a short comparison of fraternal and friendly societies in the US and Britain as part of a broader discussion of the relationship between voluntary organisations, the state and social policy.⁵³ Kaufman devoted a few pages to the British friendly societies in his major revisionist account of fraternalism, but incorrectly assumed that they were in ‘deep decline’ by the 1870s.⁵⁴

The main aim of this thesis is to test the broad hypothesis that fraternal and friendly societies operated as viable sickness and life insurance schemes. This broad hypothesis has been broken into a number of sub-questions. (1) Was the pay-as-you-go financial model financially viable? (2) Did these organisations overcome problems of moral hazard? (3) How did the membership recruitment process contribute to an ‘aging population problem’? (4) Did friendly societies fall into decline because they were ‘elbowed-out’ by state social security measures, or were internal changes in the social and cultural character of the movement more important? (5) Why were fraternal societies in the United States more focused on life insurance over sickness insurance? (6) Finally, why were North American societies more resistant to ‘actuarial reform’?

To answer these core questions, I have drawn on quantitative and archival material relating to a number of regions of the English-speaking world, essentially selecting case studies where the empirical material available was most suitable to answer the question specified. This approach takes advantage of the global expansion of the friendly society model, and pulls together the most relevant material available to answer each question in turn. The data collection and archival research process has been extensive and exhaustive, and I hope to bequeath to future scholars of the

⁵² J. Carlyon, ‘New Zealand Friendly Societies, 1842-1941’, (The University of Auckland, Ph.D thesis, 2001).

⁵³ M. Daunton, *State and Market in Victorian Britain: War, Welfare and Capitalism* (Woodbridge, 2008), pp.290-315.

⁵⁴ Kaufman, *For the Common Good?*, pp.53-54.

subject a large number of unique data-sets. The result of this empirically driven approach is a ‘social science history’ of fraternal and friendly societies, rather than a balanced historical narrative of the rise and fall of these organisations.

The multi-national comparative perspective has a number of advantages. Comparative history is a valuable tool for establishing explanatory relationships between phenomena.⁵⁵ Through comparison the historian can attempt to falsify various explanatory models and explore divergent historical trajectories.⁵⁶ When set alongside the British friendly societies the so called ‘Golden Age of Fraternalism’ does not seem quite so remarkable; not only were participation rates comparable in other regions but fraternal associations are shown to have been relatively financially fragile. This puzzle is addressed in chapter 6. The expansion of friendly societies into Australia and New Zealand offers an unexplored opportunity for addressing a number of issues. The movement developed along a slightly different path, remaining more socially vibrant in Australasia than in Britain. How this came to be the case, and how it contributed to the decline of the movement in Britain, is addressed in chapter 4. At the beginning of the twentieth century Australia and New Zealand were known as the ‘social laboratories’ of the world, in reference to a series of pioneering welfare reforms.⁵⁷ Chapter 5 explores the impact of state ‘welfare’ policies on the decline of the friendly societies, combining a micro-historical case study of the impact of National Health Insurance on the British Foresters with a broader discussion of the development of the friendly societies in Australasia between 1900 and 1930. Finally Australia and New Zealand were ‘social laboratories’ in another sense; friendly societies were subject to much closer scrutiny than in Britain, with government departments collecting large volumes of data. Moreover thanks to the efforts of a number of diligent archivists the source material for Victoria is particularly rich.⁵⁸

Writing an international history of friendly societies and fraternalism has not been without its challenges. Distance aside, the main difficulty has been to assemble a

⁵⁵ W.H. Sewell, ‘Marc Bloch and the Logic of Comparative History’, *History and Theory*, 6, 2, (1967), p.208.

⁵⁶ Ibid., p.208; C. Wickham, ‘Problems in Doing Comparative History’, in P. Skinner (ed.), *Challenging the Boundaries of Medieval History: The Legacy of Timothy Reuter* (Turnhout, 2009), p.7.

⁵⁷ E. Rogers, ‘A ‘most imperial’ contribution: New Zealand and the old age pensions debate in Britain, 1898-1912’, *Journal of Global History*, 9, 2, (2014), p.195.

⁵⁸ The Noel Butlin archives in Canberra hold some of the best friendly society records in the world, including district reports and numerous branch level minute books and membership registers.

balanced and comparable set of case studies. The first challenge was to select comparable organisations. Friendly societies and fraternal societies came in many shapes and sizes, from the small ‘village societies’ to the vast, centralised, ‘collecting societies’. Space constrains me from discussing this issue more fully. I have selected organisations providing a similar range of benefits, with a similar institutional structure. More precisely, I have focussed on societies that offered sickness and life insurance benefits, and operated around a branch system. This selection covers the majority of fraternal and friendly societies members in the regions I have focussed on, ensuring that I could compare developments in Britain, Australasia, and the United States. I have left out ‘collecting societies’ and village societies. These societies were influential in Britain, but as will be discussed, they were less important in the Antipodes and North America. It is also worth noting that I only briefly and haphazardly consider the various medical benefits provided by branch based fraternal and friendly societies. This decision was partly pragmatic – this thesis would be another quarter its current size had I analysed medical benefits – and partly because sickness and death benefits formed the main categories of benefits for these organisations in terms of the volume of expenditure.

The second challenge was selecting appropriate regions for comparison. Australasia, Britain and the United States were selected because it was in these nations that British-style, branch based, friendly societies and fraternal societies were at their most influential. I had initially attempted to include Argentina for a ‘non-Anglo’ settler society comparison. An archival trip to Argentina in 2012 convinced me that this comparison would have been unrewarding. Archival material on mutual aid societies was very scant. Moreover these organisations tended to be large and centralised entities rather than branch based. I also considered including Canada. Two factors convinced me this would not be a fruitful endeavour. First, in Canada the largest branch-based mutual aid society was the Orange Order. This organisation did provide sickness insurance to members, however the main goal of the organisation was to cultivate anti-Catholic sentiment. The Orange Order was too dissimilar to organisations like the Oddfellows for any comparisons to be meaningful. Secondly, the material collected by the registrar of friendly societies in Ottawa was closed to the public until 2017.

Both the ‘optimistic’ and ‘pessimistic’ perspectives are flawed in that they present friendly societies as inert entities. Yet these organisations changed over the nineteenth century, moving from small ‘box clubs’ founded on rough and ready principles to complex insurance organisations. Chapter 1 analyses the financial viability of individual branches and the impact of ‘actuarial reform’ from the 1840s. ‘Actuarial reform’ involved a number of organisational, accounting, and financial changes. The most important of these was to move from a pay-as-you-go to a funded plan, and to graduate contributions by age of entry as opposed to charging all members the same. Early societies set contributions too low relative to benefits. This created an unfunded liability that had to be born by subsequent generations.⁵⁹ In theory societies could continue to operate as actuarially unsound pay-as-you-go schemes indefinitely.⁶⁰ Yet this was contingent on certain conditions holding. A society’s long-term prospects were bleak if admissions fell, lapses rose, and the average age of members increased. Optimists like Green, Beito, Emery and Ismay have understated the practical weaknesses of the pay-as-you-go friendly society model. Over the nineteenth century a number of societies listened to the criticisms of actuaries; they moved over to a ‘funded’ plan and started charging contributions graduated by age on entry. These reforms, rather than the inherent strengths of the pay-as-you-go model, were the main reason behind the longevity of the friendly society movement.

Using data compiled from the 1881-1886 valuations of the Foresters and the Oddfellows, I show that actuarial reform was a necessary step. It was widely recognised the Oddfellows was the ‘reform leader’ of the friendly societies, having gone further and faster than any other organisation in applying actuarial principles.⁶¹ This was reflected in the 1881-1886 valuation results. The Foresters took longer to move from uniform to graduated contributions and failed to enforce this measure effectively. Branches charging uniform rates performed significantly worse on the 1881-1886 valuation than those branches that accepted reform. Using a newly

⁵⁹ R.J. Shiller, ‘Social Security and Institutions for Intergenerational, Intragenerational and International Risk-Sharing’, Cowles Foundation Paper No.993, (2000), pp.168-171.

⁶⁰ For theoretical justification see P.A. Samuelson, ‘An Exact Consumption-Loan Model of Interest with or without the Social Contrivance of Money’, *Journal of Political Economy*, 66, 6, (1958), pp.467-482.

⁶¹ Wilkinson, *Mutual Thrift*, p.87.

compiled panel data set of Foresters branches – termed ‘courts’ – operating between 1879 and 1907, chapter 1 also demonstrates that reforming courts were less likely to collapse, were able to attract more members and grew richer. The fact that the vast majority of branches were able to undertake structural reform is significant. The friendly societies had their flaws, but this does not mean that they were doomed to fail. As Wilkinson emphasised ‘as to the remedies [of a deficiency], it should always be borne in mind 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 the contract’.⁶²

Chapter 2 utilises a newly compiled panel dataset of friendly societies in New Zealand in the 1870s and 1880s to examine whether branches overcame the problem of ‘moral hazard’. Once insured an individual had an incentive to claim sickness benefits and change their behaviour by lowering their ‘sickness threshold’.⁶³ Friendly societies were acutely aware of the problem of moral hazard, or as they termed it ‘malingering’.⁶⁴ Writing in 1896 one official complained:

It is no use disguising the fact, for we could point out [many]... who have the happy knack of getting well after receiving twenty-five consecutive weeks ‘sick allowance’ (the period during which the maximum rate of sick benefit was payable).⁶⁵

Friendly societies responded to the problem by establishing a waiting period after joining before a member could claim, keeping benefits lower than full earnings and hiring doctors to certify sickness episodes.⁶⁶ These mechanisms were open to commercial insurers. The critical advantage of the friendly societies was that their branch structure facilitated social cohesion amongst members. Members curtailed claiming knowing that they were not taking funds from some faceless insurance

⁶² J.F. Wilkinson, ‘Friendly Society Finance’, *The Economic Journal*, 2, 8, (1892), p.726.

⁶³ S. Estrin and D. Laidler, *Introduction to Microeconomics* (New York, London, 4th ed. 1995), p.395; L. Einav, A. Finkelstein, S.P. Ryan, P. Schrimpf and M. Cullen, ‘Selection on Moral Hazard in Health Insurance’, *American Economic Review*, 103, 1, (2013), p.178; A. Aron-Dine, L. Einav, and A. Finkelstein, ‘The RAND Health Insurance Experiment, Three Decades Later’, *Journal of Economic Perspectives*, 27, 1, (2013), pp.197-222.

⁶⁴ Green and Cromwell, *Mutual Aid*, p.53-60; Riley, *Sick, Not Dead*, p.288.

⁶⁵ Green and Cromwell, *Mutual Aid*, p.53.

⁶⁶ Gosden, *Self-help*, p.16; Riley, *Sick, Not Dead*, pp.100, 131-132, 276, 283-4; M. Gorsky, ‘Mutual Aid and Civil Society: Friendly Societies in Nineteenth-Century Bristol’, *Urban History*, 25, 3, (1998), p.320.

company but from their friends.⁶⁷ More importantly, social cohesion also facilitated highly effective monitoring.

The annual reports of the New Zealand Registrar of friendly societies are particularly useful for examining whether branches overcame moral hazard. The Registrars published statistics on individual branches over a number of years, and included data on morbidity rates and the age structure of the members. Regression analysis shows that branches were able to overcome moral hazard. There is no evidence to support John Murray's conclusion that members mechanistically responded to higher sickness benefits by claiming more, although the findings do support his argument that voluntary schemes increased their expenditure on benefits when they were able to financially.⁶⁸ However there were diseconomies of scale. Larger, growing, and rural branches had higher claims rates, either because members responded to a more fragile system of monitoring, or because they felt less of a sense of obligation to their society. Moreover an increase in the wealth of a society was associated with an increase in sickness claims. This suggests that members adjusted their behaviour in response to a society's ability to pay, and/or that societies sanctioned more claims when times were good. These two results indicate, although do not prove, that members often worked through ill health but were able to claim if a society's finances were healthy.

In sickness insurance 'adverse selection' occurs when particularly unhealthy individuals have more incentive to purchase cover than healthier individuals.⁶⁹ To be effective insurers need to screen out risky individuals. Friendly societies adopted techniques such as employing a doctor to assess candidates and grading contributions by age. Yet the critical advantage of a friendly society over a commercial insurer, for whom such practices were also available, was that social networks were mobilised in

⁶⁷ Guinnane and Streb, 'Moral Hazard', pp.101-102; Green and Cromwell, *Mutual Aid*, pp.58-60, 66-71.

⁶⁸ J. Murray, *Origins of American Health Insurance: a history of industrial sickness funds* (New Haven, 2007), pp.169-200; J. Murray, 'Social Insurance Claims as Morbidity Estimates: Sickness or Absence?', *Social History of Medicine*, 16, 2, (2003), p.243.

⁶⁹ Estrin and Laidler, *Introduction to Microeconomics*, p.387; L. Einav and A. Finkelstein, 'Selection in Insurance Markets: Theory and Empirics in Pictures', *Journal of Economic Perspectives*, 25, 1, (2011), p.115; L. Einav, A. Finkelstein and MR Cullen, 'Estimating Welfare in insurance markets using variation in prices', *The Quarterly Journal of Economics*, 125, 3, (2010), pp.882-890; P. Belli, 'How adverse selection affects the health insurance market', *World Bank Publications*, Vol. 2574, (2001), p.3.

the selection process. To enter a branch an individual needed to be proposed by two existing members who had a social and financial incentive to exclude disproportionately risky individuals.⁷⁰ On top of this there was normally a waiting period where other members could object to the nomination.⁷¹ In short, friendly societies leveraged the social networks of members and charged them to inquire as to whether the individual was in good health and of sound moral character. Some historians have argued that this process helped friendly societies and fraternal associations overcome adverse selection.⁷² Chapter 3 uses a sample of proposition books relating to courts of the Foresters to study the process by which individuals were recruited. ‘Social homophily’ is the tendency of individuals to be connected to people similar to them. If members befriended individuals of a similar age in their external social networks, and then recruited from this pool, then the selection process was actually flawed. As a branch aged so too would the new recruits. Chapter 3 demonstrates that to a degree ‘youth biased’ age homophily did influence recruitment. Using a Monte Carlo simulation the second half of the chapter argues that it is likely that this led to an ageing population problem.

Chapter 4 explores the changing social and cultural character of the friendly society movement. Many of the economists that have studied friendly societies have not adequately acknowledged that they had a social and cultural purpose. One of the first Australian friendly societies justified its existence as follows:

‘[W]e may not recount all the sufferings that a few weeks illness may occasion, the examples are as numerous as they are appalling... We can perceive nothing to cheer us in the prospect of sickness and adversity, except through our united exertions to save from our weekly gains such an amount as may form a fund to relieve those who may be unable to provide for themselves and families the common necessities of life... Formed in such a society we cease to be strangers and friendless in this land of our adoption’⁷³.

⁷⁰ Gosden, *Self-help*, p.16; Riley, *Sick, Not Dead*, pp.289-292; Green and Cromwell, *Mutual Aid*, pp.50-52; Emery, ‘Risky Business?’, p.197; Gottlieb, ‘Asymmetric information’, pp.274-5; A. Downing ‘Social Capital in Decline: Friendly Societies in Australia, 1850-1914’, *Oxford Economic and Social History Working Papers*, No.105, (Oct. 2012), pp.14-15; Gorsky, ‘Mutual Aid’, p.319.

⁷¹ Green and Cromwell, *Mutual Aid*, p.50-51.

⁷² Gottlieb, ‘Asymmetric information’; H. Emery, ‘Fraternal Sickness Insurance’, in R. Whaples (ed.), *EH.Net Encyclopaedia*, (March, 2008), accessed 13/06/2015 at <http://eh.net/encyclopedia/fraternal-sickness-insurance/>; Murray, *Origins of American Health Insurance*, p.10.

⁷³ *Articles and regulations of the Parramatta Friendly Society, July 24th 1839*, p.5 (ML.334.7/P).

Financial security *and* friendship; both functions were important. Building up from branch level records chapter 4 argues that the lodge room became socially irrelevant for most members long before any state welfare policies were unrolled. From the mid-nineteenth century lodges ballooned in size, met less frequently, and attendance was persistently low. Very few members engaged in the governance of the lodge and a small clique dominated recruitment. The second section of the chapter situates these developments in an international context. In Australia and New Zealand friendly societies were more sociable and culturally vibrant at the beginning of the twentieth century. Branches were smaller, they met more frequently, attendance was higher and rituals persisted. There were a number of causes, but pivotal was the relative youth of the movement when compared to Britain and the higher rates of initiation into and migration between branches. Branches were important hubs of social capital in ‘frontier’ like regions, necessitating cultural practices that strengthened the bonds between members and ‘strangers’.

The final two chapters examine the relationship between mutualism and the state. The history of mutual aid organisations is too often presented in a ‘declensionist framework’, with a nineteenth century boom and a twentieth century bust.⁷⁴ This approach perpetuates a misleading dichotomy: Mutual aid *or* the welfare state (the title of a book in the field).⁷⁵ Presenting the state and mutualism as locked in a zero-sum battle was commonplace in the Victorian and Edwardian periods. On the other hand Geoffrey Finlayson has argued that voluntarism and mutualism were not wholly superseded, but remained ideologically and practically important long into the twentieth century.⁷⁶ Chapter 5 explores the impact of the British National Health Insurance (NHI) scheme (1911-1947) on a sample of Foresters courts between 1908 and 1923. Under the 1911 Act friendly societies could become ‘approved societies’ responsible for administering the scheme. A number of historians and economists

⁷⁴ Beito, *From Mutual Aid*.

⁷⁵ Green and Cromwell, *Mutual Aid*; For another study adopting the same dichotomy see Murray, *Origins of American Health Insurance*, pp.3-5, 152.

⁷⁶ G. Finlayson, ‘A Moving Frontier: Voluntarism and the State in British Social Welfare, 1911-1949’, *Twentieth Century British History*, 1, 2, (1990), p.184; G. Finlayson, *Citizen state and social welfare in Britain, 1830-1990* (Oxford, 1994), pp.205-208.

have argued that the NHI scheme damaged the friendly society movement.⁷⁷ It would be more accurate to see the legislation as ushering in an Indian summer for the affiliated friendly societies – a period of temporary success late in the life of the movement. Crucially branches could sell additional voluntary cover to state members. Commenting on the British scheme the New Zealand Registrar noted that because so many state members took up voluntary benefits ‘the Act has effected a welcome increase in the societies’ membership, and considerably strengthened the voluntary side of the business’.⁷⁸ The scheme did not lead to an increase in sickness claims on the voluntary side of approved societies. Moreover it seems that Lloyd George was correct in arguing that the policy was financially beneficial. The temporarily positive impact of the legislation is particularly evident when the British experience is compared with the history of the friendly societies in Australasia between 1900 and 1930. In Australasia the affiliated friendly societies continued to grow in size and wealth, but at a much steadier pace. This was partly because the movement was at an earlier stage in its life cycle. It was also because the Australasian friendly societies faced very little competition from industrial assurance companies and collecting friendly societies when compared to Britain. Overall this chapter supports Martin Daunton’s conclusion that ‘the political contingencies of 1911 were important but there were signs that the friendly societies and active participation would not have survived in any event.’⁷⁹

The period between 1860 and 1920 in the US has been dubbed the ‘Golden Age of Fraternalism’. Following contemporary commentators, historians have marvelled at the scale of the movement and the apparent success of fraternal insurers. Chapter 6 argues against the prevailing consensus. Like the early friendly societies, fraternal life and sickness insurers operated on a financially flawed ‘assessment’ plan, which was pay-as-you-go in nature. Destructive competition for members and adverse selection crippled a number of societies. The American Oddfellows even dismantled its sickness benefit scheme after it was deemed unfit for purpose. By the

⁷⁷ G. Yarrow, ‘The Friendly Societies’, *Economic Affairs*, 14, 5, (1994), p.3; D. Weinbren *The Oddfellows, 1810-2010: two hundred years of making friendships and helping people* (Lancaster, 2010), pp.146-150, 152-155, 157-158; T. Alborn, ‘Senses of Belonging: The Politics of Working-Class Insurance in Britain, 1880-1914’, *Journal of Modern History*, 73, 3, (2001), pp.571-582, see also Murray, *Origins of American Health Insurance*, pp.55-62, 243, 247.

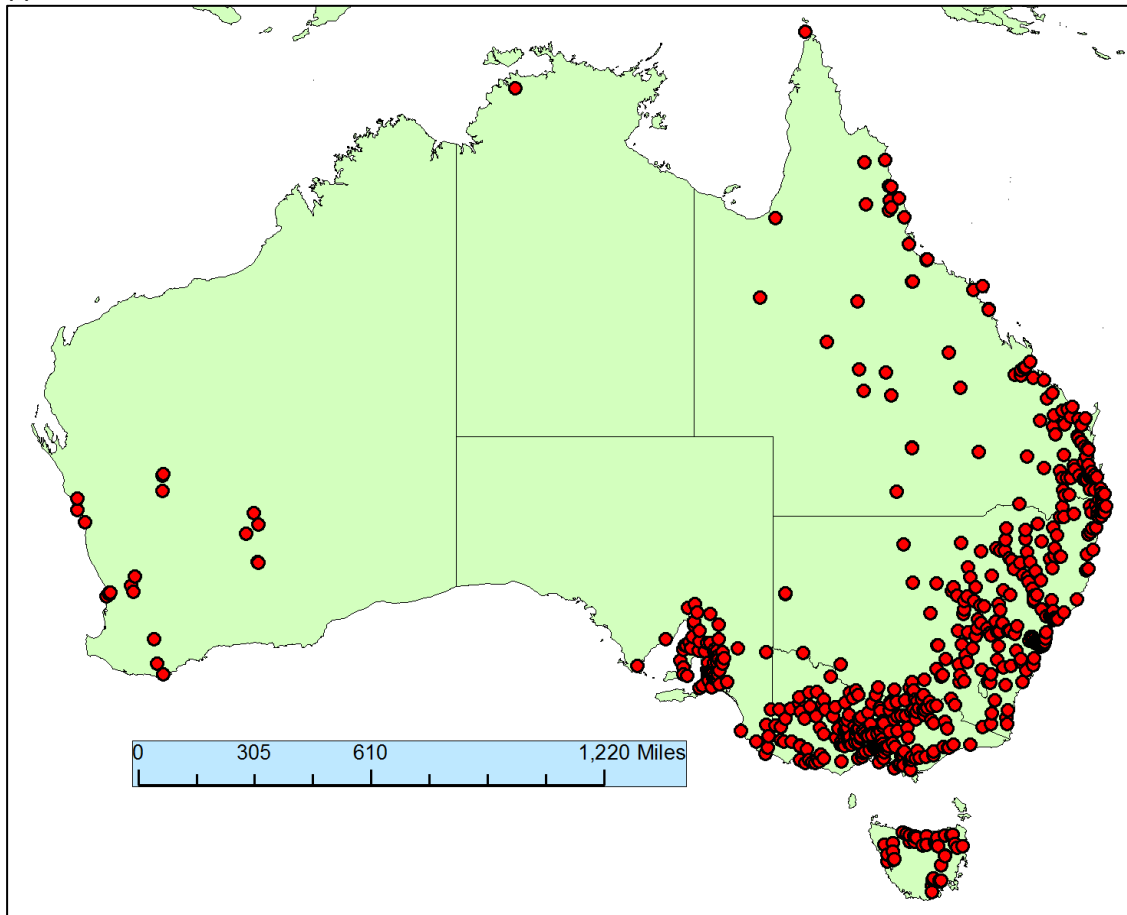
⁷⁸ *Friendly Societies: Report of the Registrar for New Zealand for the Year 1912*, in Appendix to the Journal of the House of Representatives (hereafter AJHR), Session I, section H-01, (1913), p.2.

⁷⁹ Daunton, *State and Market*, p.265.

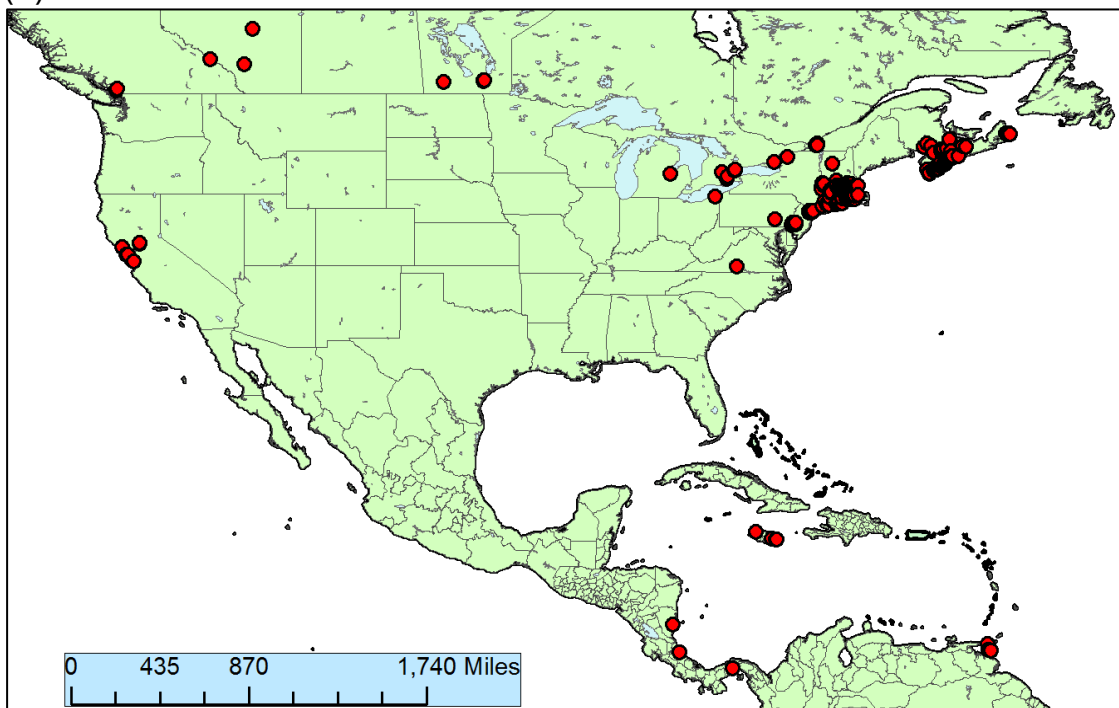
1890s most societies acknowledged that to survive they would have to move over to a funded model, but the inability of societies to cooperate delayed the process of reform. Fraternal associations eventually turned to legislation as a solution, but there were bitter disputes over what form it should take. Legislation was eventually enacted state-by-state from 1912, forcing societies off the assessment plan and subjecting them to periodic valuations. Once fraternal associations were no longer permitted to operate on a pay-as-you-go basis they ceased to be competitive and fell into terminal decline. A comparison with Britain reveals that this decline and fall was not inevitable. In Britain the state actively supported the friendly societies, through the Registrar, and encouraged actuarial reform.

Figure 0.2: Distribution of branches of the Oddfellows, 1913 in (i) Australia (ii) North America (iii) New Zealand (iv) South Africa.

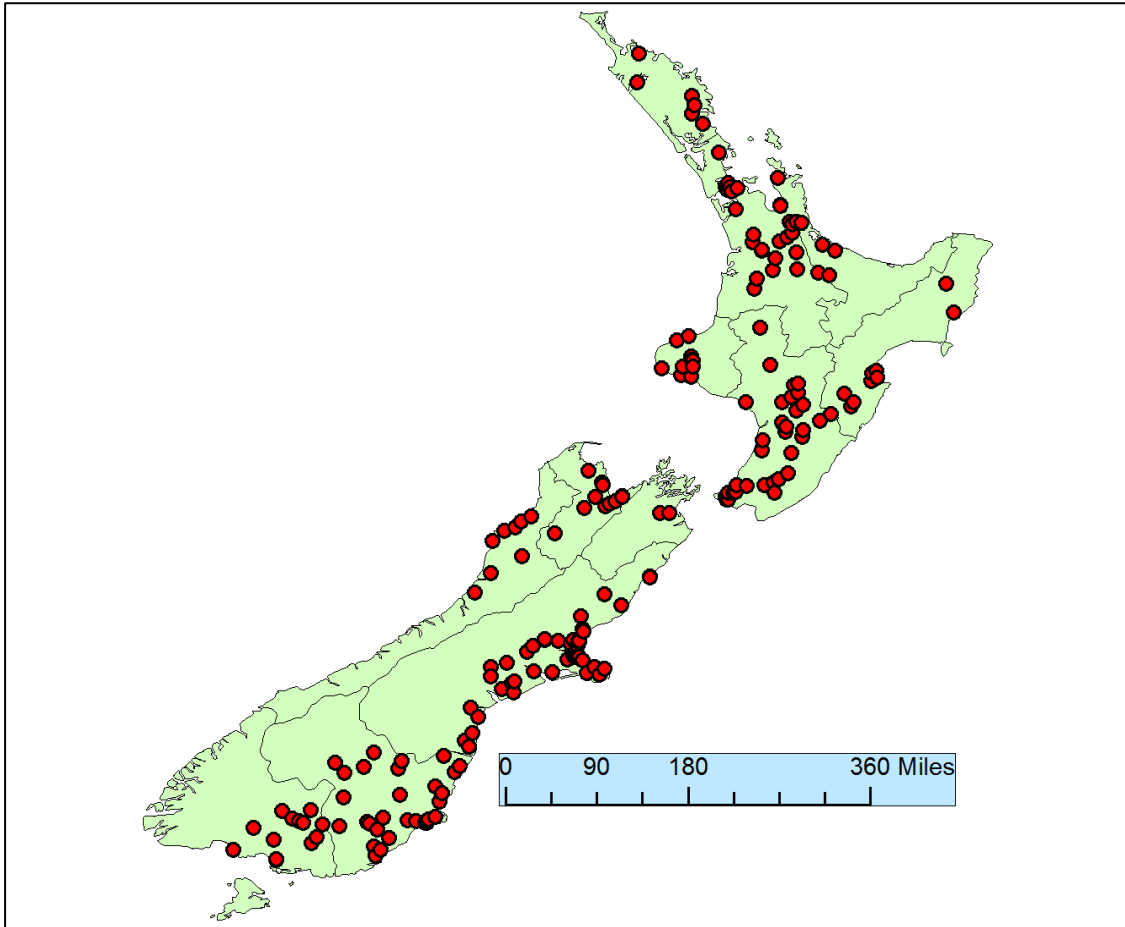
(i) Australia.



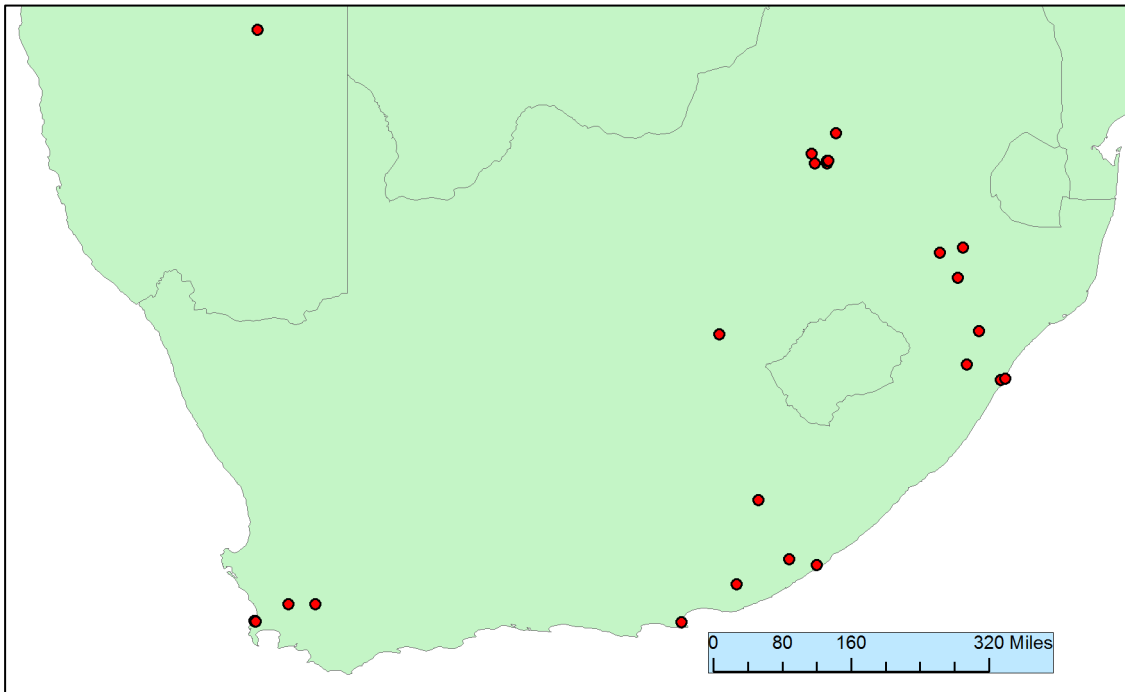
(ii) North America.



(iii) New Zealand.



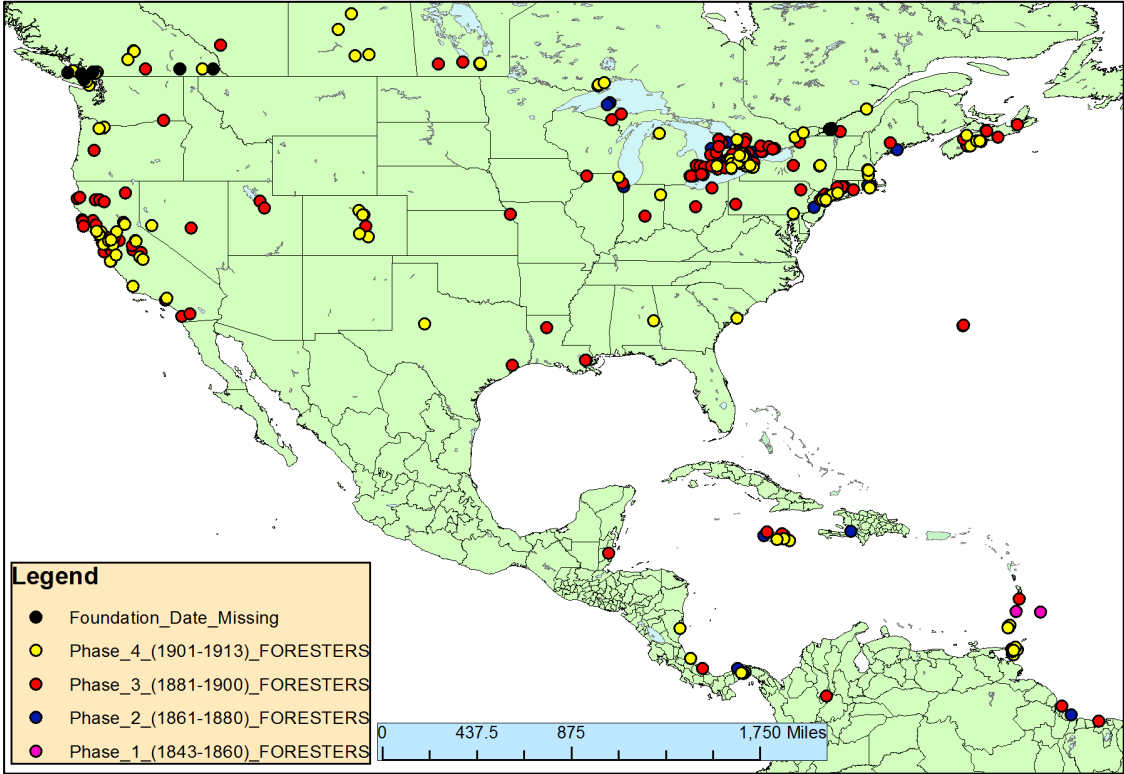
(iv) South Africa.



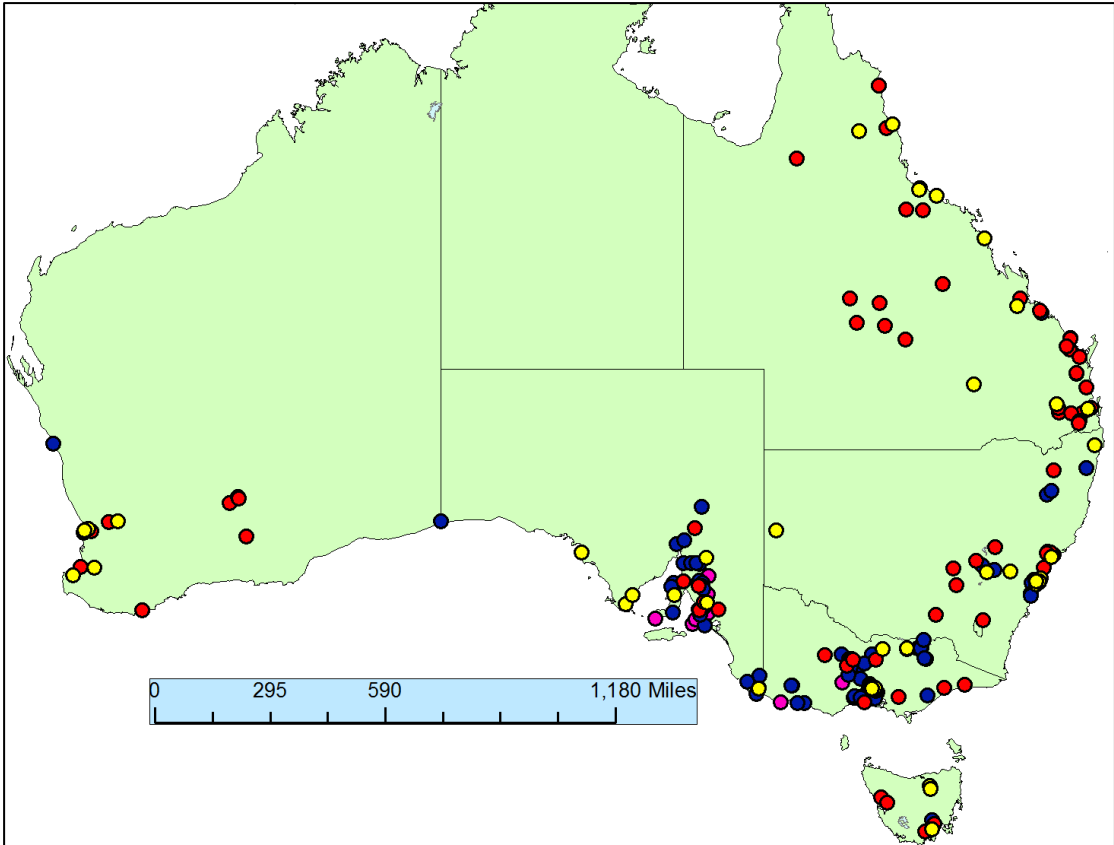
Source: *A list of the Lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1913* (Manchester, 1913), (OOA). Note: Each red dot is a branch.

Figure 0.3: Expansion of the Foresters, 1843-1913 in (i) North America (ii) Australia and (iii) New Zealand.

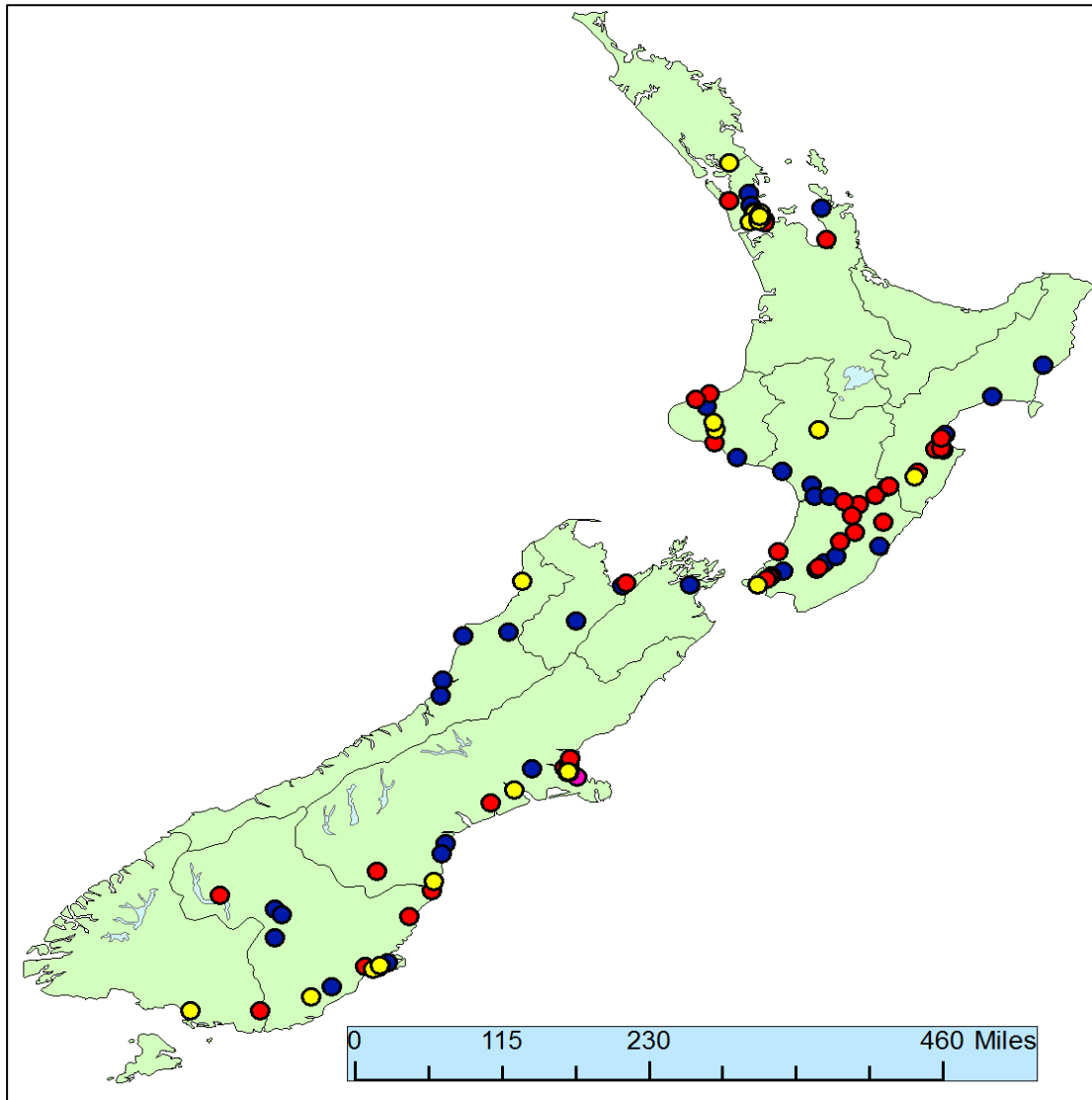
(i) North America.



(ii) Australia.



(iii) New Zealand.



Source: Directory of the Ancient Order of Foresters Friendly Society for 1914 (FHT). Note: Each dot is a branch varying in colour depending of date of foundation (see legend).

Chapter 1 – Becoming insurers: The impact of actuarial reform on friendly societies, 1850-1907

Introduction

‘The main object of a Friendly Society of the present day would shortly stated to be, that of enabling the working class portion of the community to obtain insurance... based on mutual principles; but this climax, so to speak, has only been reached after a long and often tedious process of development, extending over a period of nearly two centuries’.⁸⁰

John Frome Wilkinson, *Mutual Thrift*, 1891

Between the late eighteenth and early twentieth centuries friendly societies were one of the most important forms of formal sickness insurance available to working class men. For a modest fee they provided members with benefits in case of sickness, access to medical care, and a lump sum pay out on death. Given the centrality of their insurance function, a pivotal question in any history of the friendly society movement is how well these organisations functioned as insurers.

The first studies of friendly societies were often by officials within the movement. These accounts were generally teleological, telling the story of the inexorable rise of these organisations. Yet they were also critical and early societies were presented as deeply flawed. For HV Toynbee these were ‘established on a very insecure basis and it is not surprising to find that the majority of them are no longer in being’.⁸¹ Wilkinson called the ‘box clubs’ of the late eighteenth and early nineteenth century ‘rough and ready’ and ‘partial and imperfect’.⁸² As late as 1860 the economist Nassau Senior declared that ‘almost all are founded on principles leading to inevitable insolvency’.⁸³ In 1864 Samuel Brown argued that ‘it has to be regretted that so many continually break up, and that so many more may have to do so before the whole status of these societies can be considered sound and

⁸⁰ Wilkinson, *Mutual Thrift*, p.5.

⁸¹ H.V. Toynbee, ‘The Present Position of the Friendly Societies’, *The Nineteenth Century*, 45, 268, (1899), p.891.

⁸² Wilkinson, *Mutual Thrift*, pp.7-8.

⁸³ Cordery, *British Friendly Societies*, p.134.

wholesome'.⁸⁴ Like Wilkinson a number of Victorian commentators argued that the friendly societies had only established themselves as effective insurance organisations after a long period of internal reform. In 1905 Edward Brabrook, Chief Registrar between 1892 and 1904, argued that the success of the Oddfellows was 'due to the wise measures taken by the Order... to strengthen the resources of the lodges', but he cautioned that 'there still remains much to be done to meet the deficiency which exists in nearly half the lodges of the Unity'.⁸⁵

Actuaries were particularly vocal in their criticism of the friendly societies. In 1845 Francis Neison calculated that the Oddfellows would have a deficiency of assets of nearly £10 million by 1865.⁸⁶ Neison's figures were shown to be wildly pessimistic but repeated valuations found that most societies were technically insolvent. Actuaries were particularly critical of the practice of charging all members equal contributions, regardless of age. The actuary Henry Ratcliffe called this 'so unjust in principle, that it ought at once to be rejected by every society'.⁸⁷ Wilkinson likened the transition to graduated pricing, where contributions increased with age of entry, to 'the ejection of an undermining and life destroying consumption, preying upon the vitals till the outwardly fair frame falls in hopeless ruin'.⁸⁸

Generally historians have accepted the Victorian consensus that the friendly societies were flawed and that 'actuarial reform' was necessary. In his pioneering studies PHJH Gosden argued that financial instability was a consequence of societies setting benefits too high and contributions too low.⁸⁹ Bentley Gilbert followed a similar line of argument, seeing state health insurance and pensions as emerging in

⁸⁴ S. Brown, 'On the present Position of Friendly societies in England and Wales', *The Assurance Magazine, and Journal of the Institute of Actuaries*, 11, 6, (1864), p.351.

⁸⁵ E.W. Brabrook, 'On the Progress of Friendly Societies and Other Institutions Connected with the Friendly Societies Registry Office during the Ten Years 1894-1904', *Journal of the Royal Statistical Society*, 68, 2, (1905), p.327.

⁸⁶ F.G.P. Neison, *Contributions to Vital Statistics: Being a Development of the rate of Mortality and the Laws of Sickness from the Original and Extensive Data Procured from Friendly Societies, Showing the Instability of Friendly Societies, "Odd Fellows", "Rechabites", &c. with an inquiry into the influence of Locality on Health* (London, 1846).

⁸⁷ H. Ratcliffe *Observations on the Rate of Mortality and Sickness existing amongst Friendly Societies: Particularised for Various Trades, Occupations and Localities, with a series of Tables shewing the Value of Annuities, Sick Gift, Assurance for Death and Contributions to be Paid Equivalent Thereto calculated from the Experience of the Members composing The Manchester Unity of the Independent Order of Odd Fellows* (Manchester, 1850), p.166.

⁸⁸ Wilkinson, *Mutual Thrift*, p.249.

⁸⁹ Gosden, *Self-help*, pp.50-59; Gosden, *The Friendly Societies*, p.95.

response to the failures of mutualism.⁹⁰ The sociologist Abram De Swaan described the friendly societies as small, internally weak, and lacking actuarial expertise – inadequate precursors to the welfare state.⁹¹ In the most recent monograph on the subject Simon Cordery also argued that flawed financial practices were deleterious to the solvency of these societies.⁹²

In recent years there have been a number of ‘revisionist’ accounts that have presented a much more optimistic picture of the friendly society movement.⁹³ John Macnicol has suggested that Victorian actuaries exaggerated the extent of the insolvency of societies to serve their own interests.⁹⁴ Focusing on a small sample of branches of the American Oddfellows in British Columbia, Herbert and George Emery have argued that societies charging flat rate contributions were at a very low risk of failure and were functioning effectively.⁹⁵ Herbert Emery has also argued that actuaries used inappropriate methods to evaluate the financial viability of societies, and were overtly pessimistic.⁹⁶ Using the same econometric techniques and focusing on a sample of courts of the English Foresters Nicholas Broten has reinforced the Emery’s conclusions.⁹⁷ More recently Penelope Ismay has also argued that actuarial valuations were conceptually flawed.⁹⁸ The methodology ignored the fact that the branches of affiliated societies were able to avoid collapse because they could rely on ‘benevolent’ donations from other branches.

This chapter focuses on England and strikes a balance between the optimistic and the pessimistic interpretations. It addresses two major research questions: How well did friendly societies function as insurance organisations, and what was the impact of ‘actuarial reform’? Section one further explores the arguments put forward by actuaries and reformers that friendly societies were financial flawed. Section two argues that the actuarial valuation methodology was a relatively robust way of

⁹⁰ Gilbert, ‘The Decay’, pp.551-563.

⁹¹ De Swaan, ‘Workers’, pp.36-55.

⁹² Cordery, *British Friendly Societies*, p.151.

⁹³ Green and Cromwell, *Mutual Aid*; Beito, *From Mutual Aid*; Gottlieb, ‘Asymmetric information’, pp.270-292.

⁹⁴ Macnicol, *The Politics*, pp.116-125.

⁹⁵ Emery and Emery, *A Young Man’s*; see also Emery, ‘Risky Business?’, pp.195-226.

⁹⁶ Emery, ‘Risky Business?’, pp.199-201.

⁹⁷ Broten, ‘From sickness to death: the financial viability’.

⁹⁸ Ismay, ‘Between Providence’, pp.116-120, 123, 134-5, 145.

quantifying the long-term financial viability of individual societies. In section three, using data taken from the valuations for the period 1881-1886, I will argue that actuarial reform improved the economic performance of societies. A comparison of the valuation results of the two largest friendly societies in the world at the time, the Forester and the Oddfellows, is illustrative. It was widely recognised that the Oddfellows were the ‘reform leader’ of the friendly societies, having gone further and faster than any other organisation in adopting actuarial principles.⁹⁹ The Foresters took longer to move from uniform to graduated contributions and failed to enforce this measure effectively. By 1886 a number of Foresters courts were still using actuarially unsound contribution scales. Section four demonstrates that these courts performed significantly worse on the 1881-1886 valuation than the majority of reformed courts. Using a newly compiled data set this section also demonstrates that those courts that abolished uniform contributions attracted more members and grew richer between 1879 and 1907. Actuarial reform also improved the observed survival rates of individual branches.

Section 1: Insolvency and actuarial reform

Between 1850 and 1900 affiliated friendly societies expanded at a rapid pace (see **table 1.1**). Despite their success, they were subjected to repeated criticism. The most common complaint was that societies charged inadequate contributions and were insolvent.¹⁰⁰ Actuaries and officials also argued that many societies were poorly managed, and were not keeping appropriate records. In the case of the affiliated orders both of these criticisms intersected with the complaint that central authorities did not have sufficient powers to bring recalcitrant branches into line and that branches were not pooling risk. Actuaries also debated whether many societies were too small and had too many old members. This chapter will focus on the issue of graduated pricing. Chapters 2 and 3 will explore the issues of optimal size and the aging membership problem.

In the early stages of the friendly society movement weekly contribution levels were based on a combination of competition and custom; the founding members

⁹⁹ Wilkinson, *Mutual Thrift*, p.87.

¹⁰⁰ Wilkinson, ‘Friendly Society’, p.725.

would copy the rates of a neighbouring society, and possibly undercut them so as to attract more members.¹⁰¹ For a brief period of time a society could flourish in spite of charging inadequate fees, but if unchecked there was a risk of collapse. In 1864 Samuel Brown summarised the dilemma:

For a few years, with young and newly selected lives... all goes on too favourably. As the society advances in age, and the body of members grows older, the claims both under sickness and mortality increase, and then the managers come for advice, and find, when it is too late, that the premiums have been insufficient from the commencement. The young members, unwilling now to pay up for the advantage of the older, the older resisting a reduction of their benefits, which they have been promised, nothing remains but to dissolve the Society.¹⁰²

Solving the problem was difficult. As the Royal Commission of 1874 into friendly societies identified, excessive competition created a collective action problem. It was hard for an individual society to raise contributions because it would struggle to attract new members.¹⁰³ In the US fraternal associations faced the same problem, a dynamic Kaufman has termed ‘competitive voluntarism’, putting a downward pressure on contributions.¹⁰⁴

Table 1.1: Membership growth of six large affiliated societies, Britain 1872-1899.

| Society | 1872 | 1886 | 1899 |
|----------------------------------|-------------|-------------|-------------|
| MUIOOF | 472,000 | 597,000 | 713,000 |
| AOF | 394,000 | 572,000 | 666,000 |
| IOR | 9,000 | 60,000 | 136,000 |
| Ashton Unity of Shepherds | 46,000 | 72,000 | 103,000 |
| Grand United Order of Oddfellows | 71,000 | 83,000 | 70,000 |
| Ancient Order of Druids | 57,000 | 61,000 | 56,000 |

Source: Gosden, *Self-help*, p.104.

Reformers and actuaries called on societies to increase contributions, accumulate reserves adequate to meet likely future claims, and abolish non-actuarial

¹⁰¹ Brown, ‘On the present’, p.351; see also *Fourth report of the commissioners appointed to inquire into friendly and benefit societies; Part 1, Report of the Commissioners, with appendix* [C.961], (P.P., 1874, XXIII), p.xxxv. For parliamentary papers citation gives the reports title, followed by paper number, followed by year and volume in brackets.

¹⁰² Brown, ‘On the present’, p.352.

¹⁰³ *Forth report of the commissioners, Part 1* [C.961], p.lx.

¹⁰⁴ Kaufman, *For the Common Good?*, pp.9, 47-49, 83-4.

pricing.¹⁰⁵ In 1850 the vast majority of friendly societies charged uniform contributions, whereby all members paid the same annual fee regardless of their age of entry. The actuarial problem arose because the risk of morbidity and mortality increased with age, dramatically so from the age of 40.¹⁰⁶ This meant that in theory each member's contributions were inadequate to cover the future claims that the society would face. Actuaries called for age-based payment scales, with the annual fee increasing with age of entry and remaining fixed for the duration of membership so that contributions bore some relation to the risk each individual posed. If properly calculated a members contributions in youth would be sufficient to form a reserve that could fund claims later in life. As Wilkinson explained, the aim was to create a 'society in which every man is valued at his true worth'.¹⁰⁷ Actuarial reformers also saw graduated pricing as more equitable. Charles Hardwick, an influential reformer in the Oddfellows, argued that charging someone who had entered at the age of 20 the same as someone who had joined at 40 was unjust, given that the 40 year old would contribute far less and claim far more.¹⁰⁸

Actuaries warned that in the absence of major reform a great many societies faced inevitable ruin. As Wilkinson explained:

'The question now arises, as to whether the annual contributions or premiums which members pay for these benefits are sufficient to enable the society to fulfil its liabilities. For if this be not the case, unless remedial measures are adopted, sooner or later the society will be unable to go on paying the benefits it has promised, and consequently leave its members out of benefit'.¹⁰⁹

Raising a levy on the members to make up any deficiency was one remedial measure, but for Wilkinson the only long-term solution was to adopt graduated tables. This was because societies that charged uniform contributions faced a 'variable cost problem' where adding new members, who might claim more in benefits than they contributed,

¹⁰⁵ Cordery, *British Friendly Societies*, p.128.

¹⁰⁶ Ratcliffe, *Observations* (1850), pp.30-32.

¹⁰⁷ Wilkinson, *Mutual Thrift*, p.189.

¹⁰⁸ C. Hardwick, *Insolvent Sick and Burial Clubs: The Causes and the Cure: or, How to Choose or Found a Reliable Friendly Society, with a Large Illustrative Diagram, Suitable for Suspension in Club-Rooms, Showing, at a Glance, the Average Annual Sickness, and the Expectation of Life at Various Ages* (Manchester, 1863), pp.18-9; C. Hardwick, *The History, Present Position and Social Importance of Friendly Societies* (Manchester, 1859), p.76.

¹⁰⁹ Wilkinson, *Mutual Thrift*, p.231.

damaged the society financially.¹¹⁰ This was a difficult concept to grasp for many friendly society members because it was conventional to evaluate the strength of a society in terms of the number of members on the books. Reformers went to great lengths to emphasise that numerical and financial strength were different. Wilkinson argued that it was not until 1890 that numerical growth had been accompanied by ‘a corresponding improvement in financial strength’.¹¹¹ He summarised the variable cost problem in the same terms; if each new member represented liabilities greater than assets, then ‘every new member, as he added *numerically* to the strength of the order, proportionally weakened the *financial* strength of the same’.¹¹²

Another complaint was that many societies were not managed properly, exaggerating their inherent financial flaws. Reformers tended to focus on two things. Firstly, that societies were not keeping proper records and accounts. Over the nineteenth century the burden on the secretaries of branches of the affiliated orders grew enormously as bookkeeping practices grew more complicated. Early friendly societies kept a single fund for all purposes. Reformers called for the separation of funds for sickness and funeral expenditure, management costs and medical purposes. This would make it easier for societies to know if any one of the funds was insufficient. As Samuel Brown explained, keeping one all-purpose fund meant that ‘the state of the Society may be concealed till it is too late to remedy the mischief’.¹¹³ Actuaries also called on societies to keep detailed records of the morbidity and mortality experience of members. It was impossible to calculate adequate contributions scales without accurate estimates of age specific morbidity and mortality. A second complaint, repeatedly made over the nineteenth century and extensively documented by historians since, was that societies were funding sociable activities from the insurance funds – in particular, paying for alcohol, regalia and dinners.¹¹⁴ There were moralising overtones to these complaints, but actuaries were also concerned that expenditure on conviviality was a drain on the fund.

¹¹⁰ *Forth report of the commissioners, Part 1* [C.961], p.xxxviii.

¹¹¹ Wilkinson, *Mutual Thrift*, p.142.

¹¹² *Ibid.*, p.87.

¹¹³ Brown, ‘On the present’, p.353.

¹¹⁴ Brown, ‘On the present’, p.352, Cordery, *British Friendly Societies*, pp.90-91, 106-124; Ismay, ‘Between Providence’, pp.117, 134-135, 141.

In the case of the affiliated orders complaints about inadequate contributions and poor management intersected with calls for central authorities to have more power over individual branches. Reformers also called for a greater degree of risk pooling and some sharing of assets to make branches more resilient. In the 1870s the larger affiliated societies pressured the Registrar for the power to force their own branches to file financial returns and conduct regular valuations.¹¹⁵ In 1875 both the Foresters and the Oddfellows presented Sir Stafford Northcote with an address requesting legislation requiring their own branches to register, conduct audits, use only official tables of benefits and contributions and employ licensed actuaries to prepare quinquennial returns. Some officials and actuaries pressed for the establishment of a central fund to support flagging branches, as this would reduce the risk of any one branch collapsing. This was a double-edged sword because some believed societies should be allowed to fail. Wilkinson complained that ‘good money has been thrown after bad’ because the affiliated orders had supported branches that had not adopted ‘stringent self-reform’.¹¹⁶ There was an overtly Darwinian logic to Wilkinson’s argument; he went on ‘progress is only to the “fittest”, and a point is being rapidly reached when it will be apparent that those societies which have not set their houses in order are on the “downgrade”’.¹¹⁷

By 1886 a number of societies had taken these criticism seriously and embarked on the process of reform. Nevertheless the overall outlook was bleak. The results of the 1881-1886 valuation revealed that nearly all the affiliated societies had a deficiency. **Table 1.2** lists the results of the largest orders. These aggregate figures mask the distribution of deficits within each order. Some branches were woefully underfunded. One court of the Foresters, founded in 1834 in Yorkshire and charging uniform contributions, had a deficiency of £29 per member and just 23p of assets for every £1 of liabilities (see below).

¹¹⁵ Cordery, *British Friendly Societies*, pp.156-7.

¹¹⁶ Wilkinson, *Mutual Thrift*, p.292.

¹¹⁷ *Ibid.*, p.294.

Table 1.2: Overall results of the 1881-1886 valuation of major affiliated societies in Britain.

| Society | Members | Deficiency (in £) | Deficiency per member (in £) |
|---|----------------|------------------------------|---|
| Order of Shepherds, Ashton Unity | 53446 | 315628 | 5.91 |
| Grand United Order of Oddfellows | 33729 | 181212 | 5.37 |
| Sons of Temperance | 12214 | 54407 | 4.45 |
| AOF | 540167 | 2312728 | 4.28 |
| UAOD | 17661 | 70087 | 3.97 |
| Nottingham Imperial Order of Oddfellows | 29232 | 110222 | 3.77 |
| Bolton Unity Order of Oddfellows | 11550 | 33306 | 2.88 |
| National Independent Order of Oddfellows | 27132 | 62835 | 2.32 |
| Ancient Order of Shepherds | 21756 | 49485 | 2.27 |
| MUIOOF | 518007 | 700726 | 1.35 |
| IOR | 19930 | 25388 | 1.27 |

Source: Wilkinson, *Mutual Thrift*, pp.236-238.

Actuarial reform proceeded at an uneven pace. The friendly society movement was too heterogeneous to document the process of reform in all the major societies, but a comparison of the Oddfellows and the Foresters is illustrative. In terms of organisational structure and the way local branches ('courts' in the Foresters and 'lodges' in the Oddfellows) functioned, the two orders were extremely similar. The most significant difference was that the central government of the Foresters was much weaker. In both organisations ultimate authority was invested in an elected body of representatives; in the Oddfellows this was the Annual Moveable Committee (AMC), in the Foresters it was the High Court Meeting (HCM). In the Oddfellows a Board of Directors was tasked with carrying out the decisions of the AMC. Membership was semi-permanent and the Board wielded considerable power. In the Foresters the seat of government was moved every year to wherever the HCM was sitting.¹¹⁸ This meant that the High Chief Ranger and the Executive Council (the equivalent of the Board of Directors) were replaced every year. The advantage of this system was that no group could gain permanent control. On the other hand central authority was weaker than in the Oddfellows. The Executive Council lost the benefit of the continued service of its most experienced individuals and because membership varied

¹¹⁸ A. Watson, 'Some points of interest in the operations of Friendly Societies, Railway Benefit Societies and Collecting Societies', *Journal of the Institute of Actuaries*, 44, 2, (April, 1910), p.179.

so much it was not as trusted as the Board of Directors was in the Oddfellows.¹¹⁹ Recalcitrant courts often ignored the Executive Council because they knew it was going to be replaced the next year. Moreover officials would have to spend a portion of the year simply adjusting to the role.

In both the Oddfellows and the Foresters the first obstacle to reform was obtaining data from branches. In 1899 HV Toynbee noted that early societies ‘had to grope their way in the dark’ in the absence of accurate vital statistics.¹²⁰ It was impossible to know whether a society was insolvent without basic information on members, income, expenditure and capital in hand. Moreover to accurately price contributions actuaries needed a massive volume of data on sickness claims. The Oddfellows called for all branches to send annual statistical returns in 1844, and the Foresters followed in 1853.¹²¹ A number refused and it took years of badgering before the majority of branches got used to the requirement. By the 1880s an impressive volume of information was flowing from branches to central authorities – the directories of both orders are testimony to this.¹²² By the end of the nineteenth century the majority of branches kept detailed records and separate accounts for different purposes.¹²³ The Oddfellows pioneered the collection of morbidity and mortality data, in large part thanks to the efforts of Henry Ratcliffe. Using the annual returns from lodges between 1846 and 1848, Ratcliffe calculated age specific morbidity and mortality rates. Ratcliffe also disaggregated these results depending on whether lodges were located in a city, town or rural area. Ratcliffe’s calculations formed the basis of a new set of graduated contributions tables, which were revised following two more studies for the years 1856-60 and 1866-70.

Thanks to these efforts by 1850 there was a sufficient body of actuarial evidence to justify the introduction of graduated contributions. In 1845 the Oddfellows ordered every lodge to recalibrate contributions and benefits to lie within set parameters; lodges were still free to choose their own specific scales but the overall rate of contribution had to be ½ d. per week for every £1 of funeral benefits and

¹¹⁹ Gosden, *Self-help*, p.45.

¹²⁰ Toynbee, ‘The Present’, p.894.

¹²¹ Gosden, *Self-help*, pp.40, 57.

¹²² *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1887* (Manchester, 1887) (OOA); *Directory of the Ancient Order of Foresters Friendly Society for 1886* (FHT).

¹²³ See Rule 21 of the MUIOOF, Landis, *Friendly Societies*, p.44.

shilling of weekly sickness benefits on offer.¹²⁴ This measure caused a divide in the order with a large number of lodges seceding. Full graduated contributions scales, based on Ratcliffe's tables for 1846-8, were adopted by the Preston AMC in 1853 and in 1864 these scales were adapted because Ratcliffe's estimate for 1856-60 proved to be more accurate.¹²⁵

The Foresters were not as successful when it came to introducing graduated pricing. In 1865 the HCM at Plymouth sanctioned the use of contributions and benefits proposed by the actuarial reformer and official, Samuel Shawcross. No attempt was made to enforce these tables until 1871 when the order decided that all new members should pay graduated contributions. Yet even this edict was largely ignored and it was not until 1885 that the central authorities took steps to enforce the rule by suspending 52 recalcitrant courts.¹²⁶

By 1886 only 34 of the 2913 branches of the Oddfellows in England included the 1881-1886 valuation (see below) were charging uniform contributions, just 1% of the order. In the Foresters the introduction of graduated scales was, according to Wilkinson, 'most half-heartedly and carelessly carried out'.¹²⁷ In 1886 10.3% of courts were still charging uniform contributions. This was down from 21.66% of courts in 1873, the first year the directory recorded whether courts were charging graduated contributions. **Table 1.3** shows that the pace of reform varied by region. Generally change was slowest in those counties where the order had a historical presence, which was a function of the courts being older and more resistant to change. The court level figures masked the scale of the problem. In 1880 54.6% of members were still paying uniform contributions.¹²⁸ This figure had dropped to 25% by 1896, the last time the directory recorded this information, but progress was very slow in some counties, such as Huntingdonshire, Cheshire, Lancashire, Bedfordshire and Lincolnshire (see **table 1.4**). Again, these were counties where the Foresters were well established.

¹²⁴ Gosden, *Self-help*, pp.54-55.

¹²⁵ Ibid, pp.56-7.

¹²⁶ Ibid., p.58.

¹²⁷ Wilkinson, *Mutual Thrift*, p.155.

¹²⁸ This is the first year in which the Directory of the Foresters recorded the number of members paying graduated contributions in each court. See *Directory of the Ancient Order of Foresters Friendly Society for 1880* (FHT).

Table 1.3: Proportion of branches of Foresters charging uniform contributions, England 1873.

| County | % of branches charging uniform contributions (Dec. 1872) |
|------------------|---|
| Bedfordshire | 56.25 |
| Berkshire | 42.86 |
| Buckinghamshire | 0.00 |
| Cambridgeshire | 11.11 |
| Cheshire | 23.81 |
| Cornwall | 0.00 |
| Cumberland | 21.74 |
| Derbyshire | 34.15 |
| Devonshire | 8.65 |
| Dorsetshire | 0.00 |
| Durham | 15.38 |
| Essex | 0.00 |
| Gloucestershire | 2.80 |
| Hampshire | 16.35 |
| Herefordshire | 0.00 |
| Hertfordshire | 50.00 |
| Hunts | 60.00 |
| Kent | 9.80 |
| Lancashire | 29.94 |
| Leicestershire | 14.29 |
| Lincolnshire | 44.44 |
| Middlesex | 17.17 |
| Monmouthshire | 42.31 |
| Norfolk | 10.48 |
| Northamptonshire | 40.35 |
| Northumberland | 0.00 |
| Nottinghamshire | 21.62 |
| Oxfordshire | 14.29 |
| Rutland | 100.00 |
| Salop | 9.33 |
| Somersetshire | 7.69 |
| Staffordshire | 8.33 |
| Suffolk | 21.57 |
| Surrey | 17.72 |
| Sussex | 1.45 |
| Warwickshire | 22.08 |
| Westmoreland | 28.57 |
| Wiltshire | 7.41 |
| Worcestershire | 16.30 |
| Yorkshire | 46.31 |
| ENGLAND | 21.66 |

Source: Directory of the Ancient Order of Foresters Friendly Society for 1873, pp.262-263 (FHT).

Table 1.4: Proportion of members of Foresters paying uniform contributions, England 1879-1896.

| County | % members paying uniform contributions | | |
|------------------|---|------------------|------------------|
| | Dec. 1879 | Dec. 1889 | Dec. 1896 |
| Bedfordshire | 64.60 | 48.17 | 25.43 |
| Berkshire | 57.21 | 14.98 | 4.76 |
| Buckinghamshire | 46.58 | 26.19 | 3.32 |
| Cambridgeshire | 43.77 | 19.60 | 10.82 |
| Cheshire | 86.32 | 53.99 | 36.03 |
| Cornwall | 50.11 | 29.07 | 15.14 |
| Cumberland | 79.72 | 38.44 | 17.87 |
| Derbyshire | 52.27 | 33.87 | 12.63 |
| Devonshire | 59.15 | 32.57 | 14.27 |
| Dorsetshire | 24.24 | 16.68 | 14.78 |
| Durham | 81.04 | 44.04 | 19.88 |
| Essex | 0.00 | 12.01 | 7.51 |
| Gloucestershire | 47.98 | 13.99 | 1.13 |
| Hampshire | 30.66 | 14.14 | 5.69 |
| Herefordshire | 0.00 | 0.00 | 0.00 |
| Hertfordshire | 29.49 | 15.06 | 10.19 |
| Hunts | 98.24 | 82.22 | 77.59 |
| Kent | 36.50 | 23.36 | 9.06 |
| Lancashire | 82.63 | 54.45 | 30.38 |
| Leicestershire | 65.98 | 26.96 | 15.85 |
| Lincolnshire | 83.62 | 58.54 | 31.42 |
| Middlesex | 32.65 | 16.22 | 3.37 |
| Monmouthshire | 82.06 | 43.08 | 14.96 |
| Norfolk | 59.88 | 36.60 | 14.71 |
| Northamptonshire | 63.09 | 32.55 | 5.51 |
| Northumberland | 69.22 | 30.02 | 9.82 |
| Nottinghamshire | 82.81 | 35.74 | 12.91 |
| Oxfordshire | 42.74 | 2.87 | 0.14 |
| Rutland | 88.32 | 74.55 | 8.87 |
| Salop | 28.95 | 14.67 | 10.97 |
| Somersetshire | 33.67 | 19.84 | 9.01 |
| Staffordshire | 55.26 | 23.97 | 4.52 |
| Suffolk | 48.26 | 14.29 | 15.18 |
| Surrey | 45.87 | 30.73 | 5.58 |
| Sussex | 29.77 | 12.66 | 3.74 |
| Warwickshire | 33.97 | 16.70 | 0.84 |
| Westmoreland | 61.85 | 20.43 | 3.65 |
| Wiltshire | 53.23 | 6.28 | 9.96 |
| Worcestershire | 64.50 | 33.35 | 20.89 |
| Yorkshire | 83.53 | 47.99 | 11.25 |
| ENGLAND | 54.62 | 27.69 | 25.43 |

Source: Directory of the Ancient Order of Foresters Friendly Society for 1880, pp.362-363 (FHT); Directory of the Ancient Order of Foresters Friendly Society for 1890, pp.560-561 (FHT); Directory of the Ancient Order of Foresters Friendly Society for 1897, pp.626-627 (FHT).

The Oddfellows were also more successful when it came to ensuring branches undertook periodic valuations. Quinquennial valuations were made compulsory in 1870, and by 1872 the Oddfellows published the full results of the first valuation in its quarterly reports.¹²⁹ The 82nd rule gave the Board of Directors considerable powers to infringe upon lodge autonomy if the valuation discovered a serious deficiency. Any lodge with a deficiency of 15% of total liabilities would have to reduce benefits or raise contributions or ‘take such steps as may be considered necessary to place it in a solvent position’.¹³⁰ This placed the burden of reform directly on the lodge.

The contrast with the Foresters was stark. In spite of the fact that the friendly society Act of 1875 made valuations compulsory for all registered societies, the Foresters still found it difficult to get courts to comply. The valuation of 1881-1886 was the first in which the majority of courts completed the process, but 11.2% still sent incomplete returns. Courts with a deficiency were effectively supported by donations from members. In 1872 the High Court Relief Fund was established, financed by a ½ p levy per member per annum. If a court had a deficiency larger than 15% of capital in hand the High Court Relief Fund would donate up to half the value of the deficiency. This grant was, however, conditional on the other half being made up through a reduction in benefits and/or increase in contributions.¹³¹ In this instance the Foresters appear to have been more developed than the Oddfellows, which did not formally institute a membership wide levy to support struggling branches until 1891.

Between the New Poor Law of 1834 and the passage of the National Health Insurance Act in 1911 the Oddfellows and the Foresters changed dramatically. After a long process of internal reform they had become complex and sophisticated insurance organisations. Yet in both the pace and extent of change the Oddfellows were the ‘reform leader’ of the friendly societies, after an ‘unparalleled series of self-reforms, which have continued without intermission’.¹³² As the 1874 Royal Commission observed, the Foresters were ‘in most respects... half a generation

¹²⁹ *Independent Order of Oddfellows, Manchester Unity, Friendly Society, Quarterly Report, 1st July 1872* pp.18-33 (hereafter *MUQR*); *MUQR, 1st February 1873* pp.10-81.

¹³⁰ Landis, *Friendly Societies*, p.47.

¹³¹ Toynbee, ‘The Present’, p.896.

¹³² Wilkinson, *Mutual Thrift*, p.87; see also E.W. Walter, ‘The History, Functions, and Prospects of Friendly Societies’, *Contemporary Review*, 29, (Jan. 1877), p.194.

behind the Oddfellows'.¹³³ The cumulative effect was that although the Foresters were able to attract more new members in the final quarter of the nineteenth century, the Oddfellows were much richer (see **table 1.5**). The divergence of the Oddfellows and the Foresters makes for a useful 'natural experiment'. In 1886 both organisations were extremely similar in size and structure, but whereas the Oddfellows had implemented a number of comprehensive actuarial reforms, the Foresters had not. The most important difference was that in the Foresters a significant percentage of members were still paying uniform contributions. This makes for a secondary useful comparison within the Foresters of the performance of courts charging graduated and uniform contributions.

Table 1.5: Financial and numerical strength of the Foresters and Oddfellows, Britain 1873-1890.

| | Oddfellows | Foresters |
|------------------------------|-------------------|------------------|
| Members in 1873 | 470,043 | 401,907 |
| Members in 1890 | 651,890 | 642,888 |
| Increase | 181,847 | 240,981 |
| Percentage Increase | 38.69 | 59.96 |
| | | |
| Fund in 1873 (in £) | 7,358,853 | 1,520,941 |
| Funds in 1890 (in £) | 3,223,323 | 3,909,266 |
| Increase (in £) | 4,135,530 | 2,388,325 |
| | | |
| Funds per member 1873 (in £) | 6.86 | 3.78 |
| Funds per member 1890 (in £) | 11.29 | 6.08 |
| Increase (in £) | 4.43 | 2.30 |
| Percentage increase | 64.62 | 60.68 |

Source: Wilkinson, *Mutual Thrift*, pp.153, 158.

Section 2: The actuarial valuation methodology

The dominant methodology used by actuaries to gauge the financial viability of individual societies was the valuation. A valuation was a stock take of a society's assets and liabilities, with the aim being to establish whether contributions were sufficient to enable a society to fulfil its liabilities. Liabilities were calculated by estimating the present value of future benefits to existing members. A society's assets

¹³³ Wilkinson, *Mutual Thrift*, p.154.

included all types of capital (cash, investments and property) plus an estimate of the present value of future contributions from existing members.¹³⁴

To determine the present value of future assets and liabilities actuaries had to make predictions about mortality, morbidity and interest rates. These estimates were used to calculate how much each member currently on the books would contribute and claim.¹³⁵ It took decades before actuaries could collect enough data to accurately calculate morbidity and mortality rates. In 1840 Francis Neison collected information on just over 200,000 friendly society members.¹³⁶ Neison's study was pioneering but it was based on voluntary returns. Henry Ratcliffe's study of the experience of members of the Oddfellows between 1846 and 1848 was more extensive, based on 621,561 individuals. Ratcliffe's sample was sufficiently large to disaggregate mortality and morbidity rates by city, town and rural districts, and even by occupation.¹³⁷ Ratcliffe's tables were revised in 1862 and 1872 following more extensive data collection.¹³⁸ By the 1881-1886 valuation morbidity and mortality estimates were much more robust, based on a large volume of data. Actuaries also used an assumed interest rate to calculate the present value of future benefits and contributions. In the words of Wilkinson 'the more remote these payments, the greater the amount of compound interest can be earned' in the meantime.¹³⁹ Because morbidity rates rose with age it was likely that younger members would claim less than they would contribute, and therefore their surplus contributions could earn interest over a number of years. Older members would claim more, in effect removing funds from the society that could be invested in the present. Therefore the present value of future contributions fell with age whilst the present value of future benefits rose.

¹³⁴ Wilkinson, *Mutual Thrift*, p.234

¹³⁵ *Ibid.*, p.234

¹³⁶ Brown, 'On the Present', p.343.

¹³⁷ Ratcliffe, *Observations* (1850), pp.19-20, 39-120.

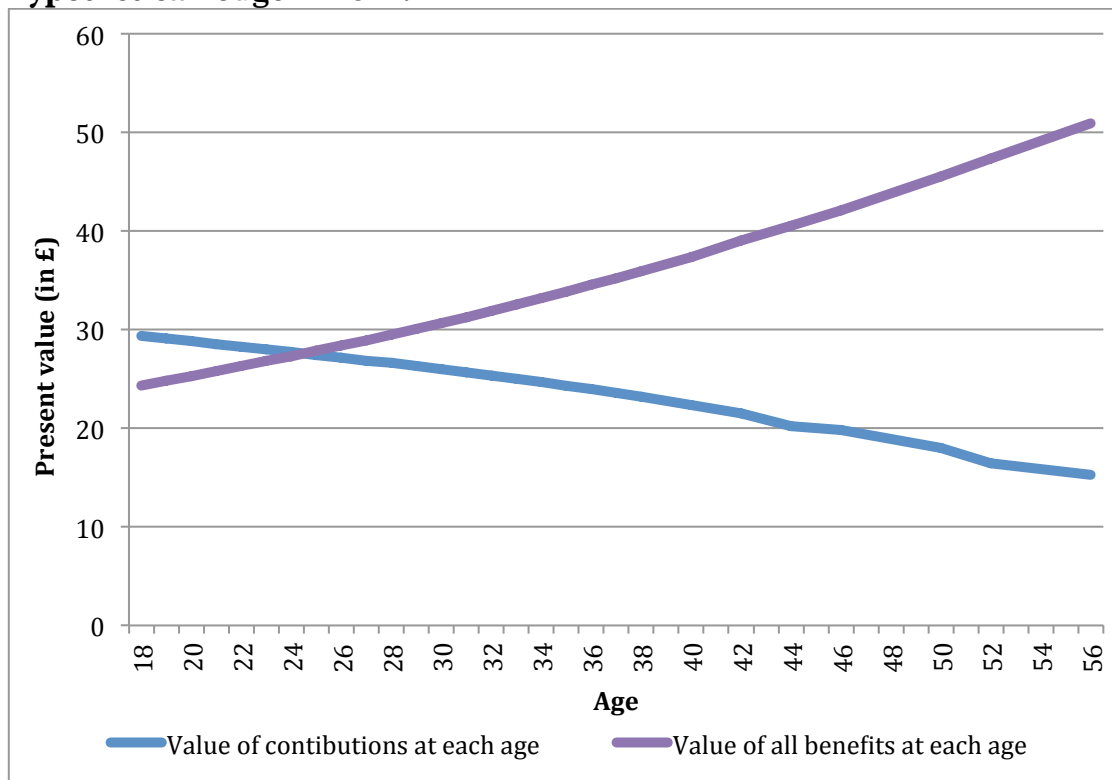
¹³⁸ H. Ratcliffe, *Observations on the Rate of Mortality and Sickness existing amongst Friendly Societies: Particularised for Various Trades, Occupations and Localities, with a series of Tables showing the Value of Annuities, Sick Gift, Assurance for Death and Contributions to be Paid Equivalent Thereto calculated from the Experience of the Members composing The Manchester Unity of the Independent Order of Odd Fellows* (Colchester, 1862); H. Ratcliffe, *Independent Order of Odd-Fellows, Manchester Unity Friendly Society, Supplementary Report July 1st 1872* (Manchester, 1872); See also A. Watson, *An Account of an Investigation of the Sickness and Mortality Experience of the IOOF Manchester Unity, During the Five Years 1893-1897* (Manchester, 1903).

¹³⁹ Wilkinson, *Mutual Thrift*, p.93

In his 1844 and 1872 actuarial studies of the Oddfellows, Henry Ratcliffe included two hypothetical valuations to make the process more intelligible.¹⁴⁰ ‘Lodge A’ consisted of 86 members, each paying a contribution of 6p per week and receiving 12s per week in sickness up to age 70, and thereafter an annuity of 2s 6p per week. Members also received £10 at death. Using estimates of sickness and mortality, and assuming an annual rate of return on capital of 3%, Ratcliffe calculated the net present value of an individual member at each age (see **figure 1.1**). The age structure of ‘lodge A’ is show in **figure 1.2**. Ratcliffe then multiplied the net value of a member at each age (present value of future contributions minus present value of future benefits) by the number of members at each age, and added all these figures together (see **figure 1.3**). The overall surplus or deficiency of future assets was then added to the present capital of the lodge. In this instance Lodge A had a deficiency of £496, only 81.6 p. of assets for every £1 of liabilities. ‘Lodge B’ had 91 members paying half yearly contributions of varying amounts, given in **figure 1.4**. Each member was entitled to receive 10s per week in the first 12 months of sickness, 5s per week in the second 12 months, and 2s and 6p per week thereafter. Members were also entitled to £10 upon death and £5 upon the death of an insured wife. The more complicated and semi-graduated contributions scales of ‘lodge B’ made it more difficult to value, but the same basic procedure was employed (see **figures 1.5 to 1.7**).

¹⁴⁰ Ratcliffe, *Observations* (1850), pp.168-9; Ratcliffe, *Independent Order of Oddfellows*, pp.150-151.

Figure 1.1: Present value of contributions and benefits at each age in a hypothetical lodge in 1844.



Note: 86 members paying 6p per week.

Figure 1.2: Proportion of members at each age in hypothetical lodge in 1844.

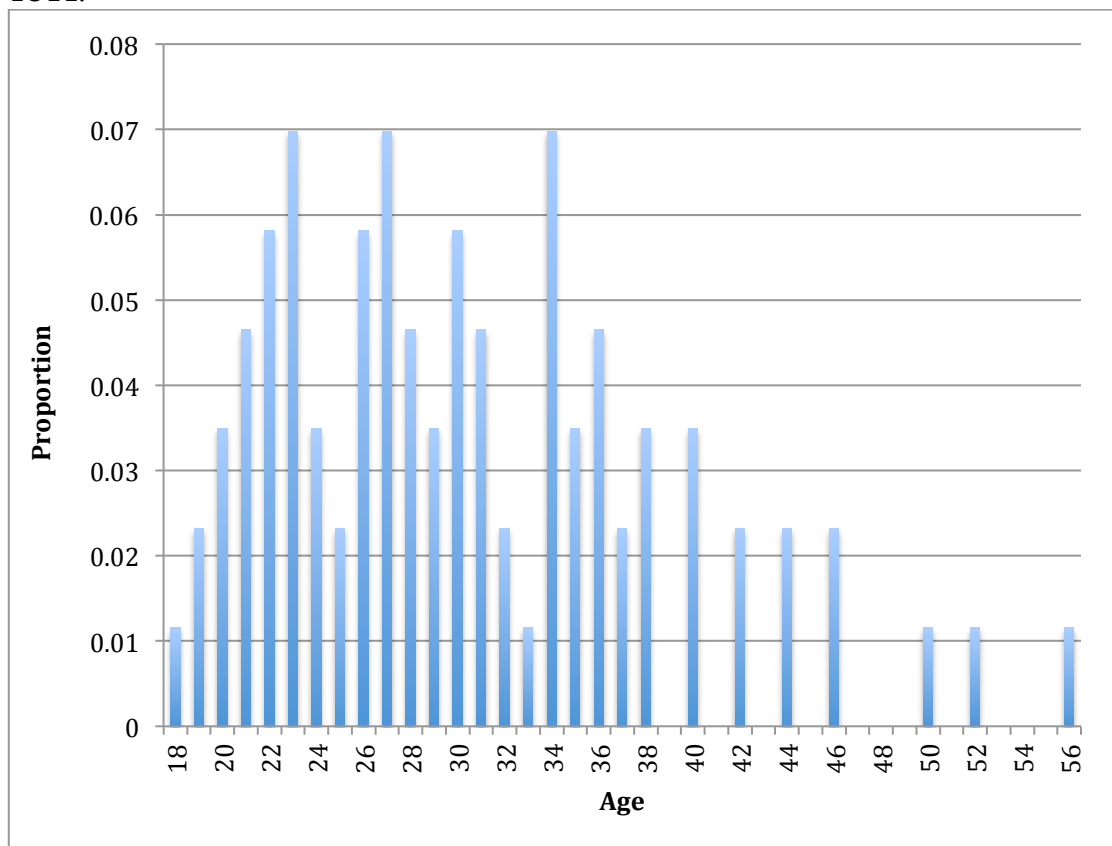
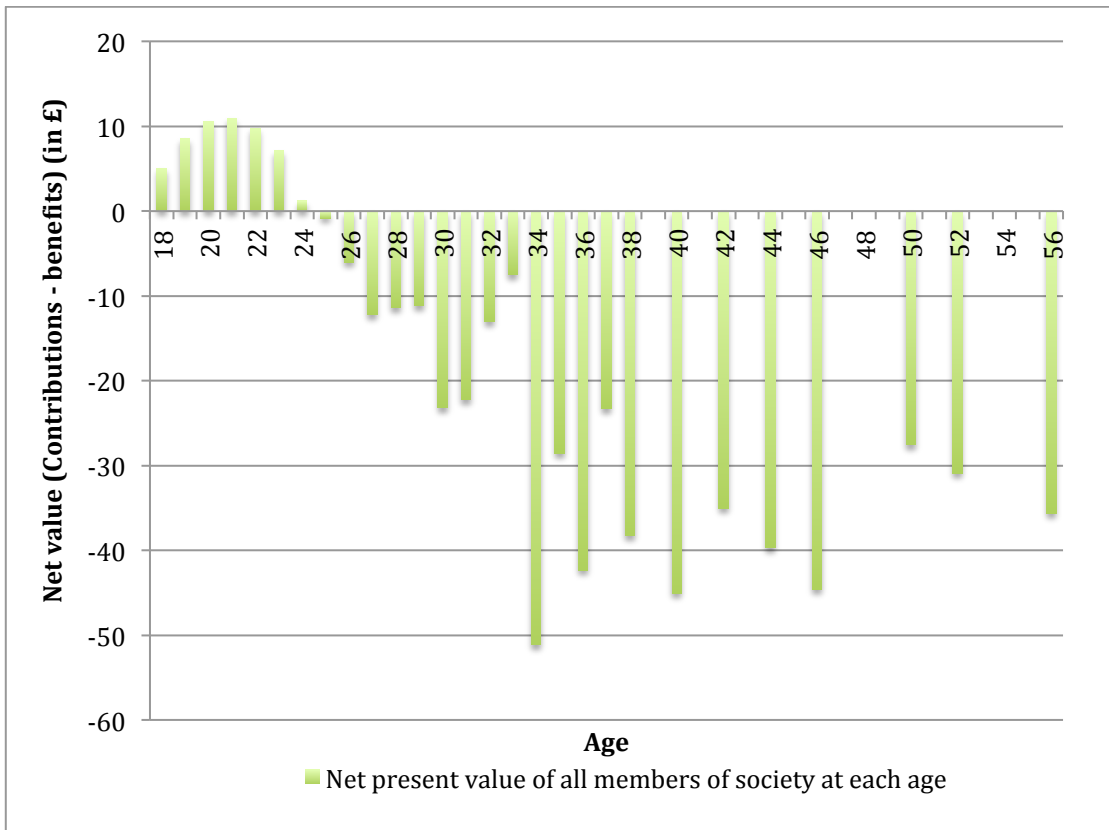


Figure 1.3: Net value of all members at each age in a hypothetical lodge in 1844.



Note: Present value of future contributions minus present value of future benefits.

Figure 1.4: Annual contributions at each age in a hypothetical lodge in 1872.

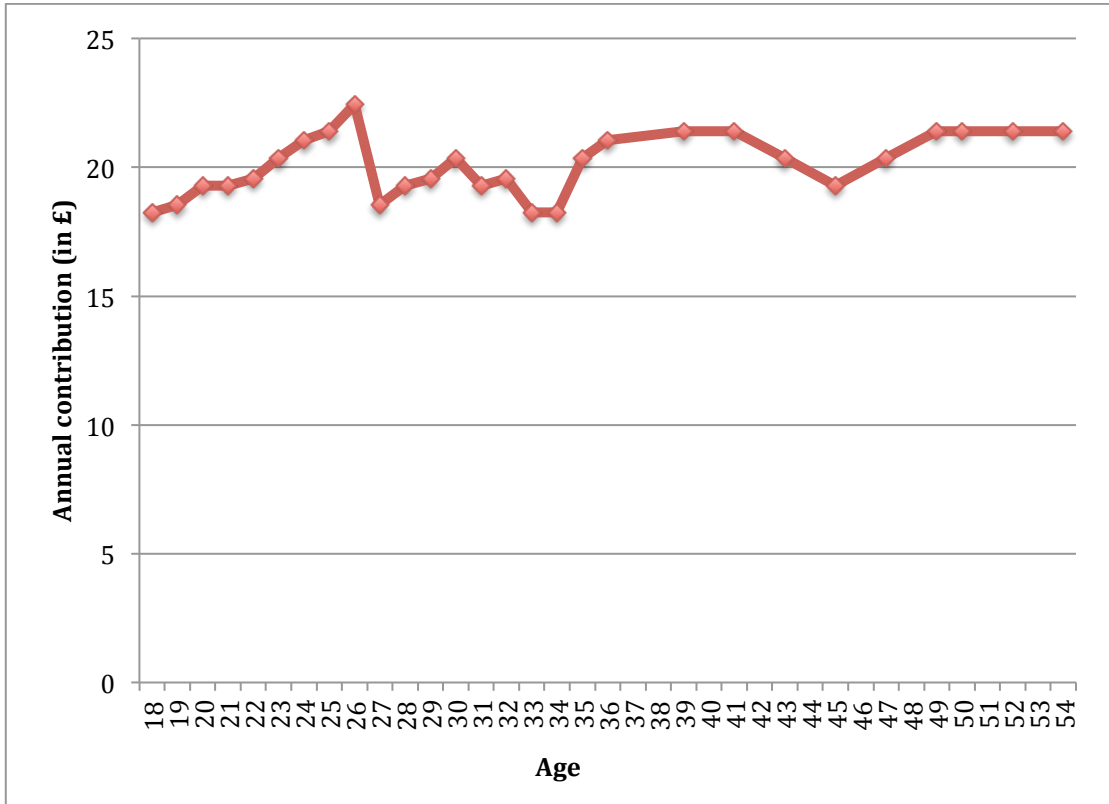


Figure 1.5: Present value of contributions and benefits at each age in a hypothetical lodge in 1872.

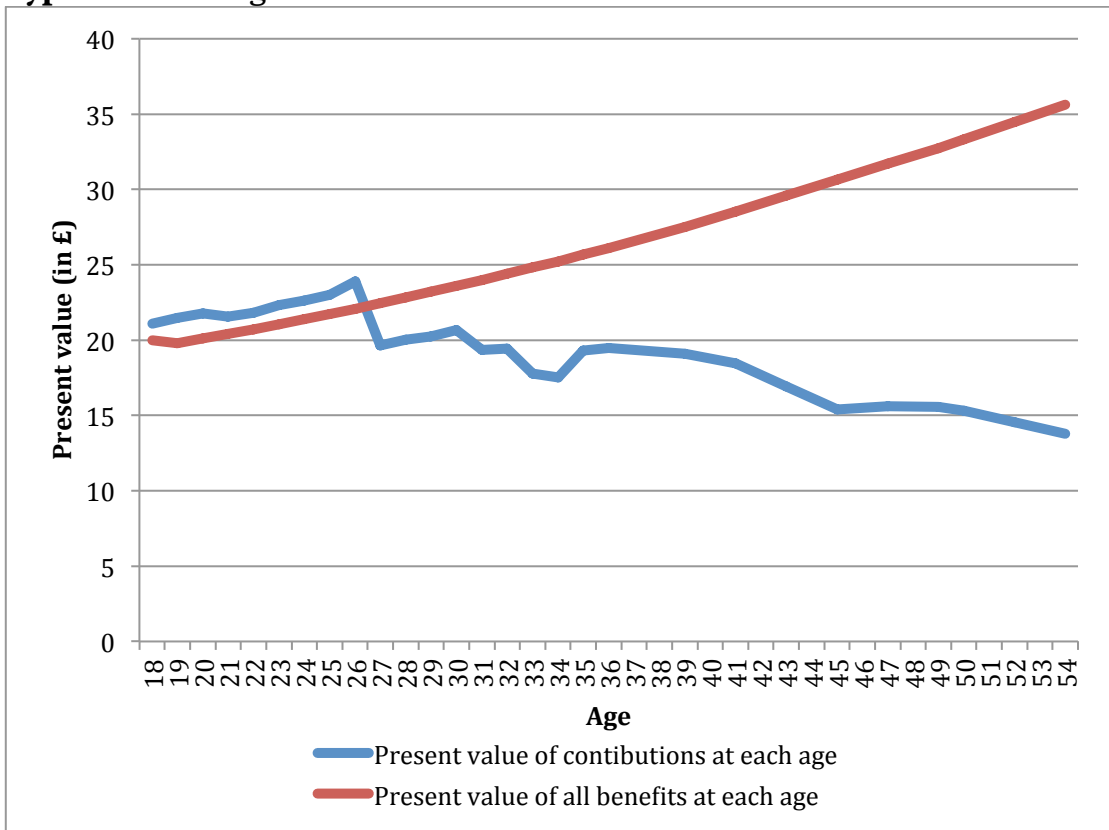


Figure 1.6: Proportion of members at each age in a hypothetical lodge in 1872.

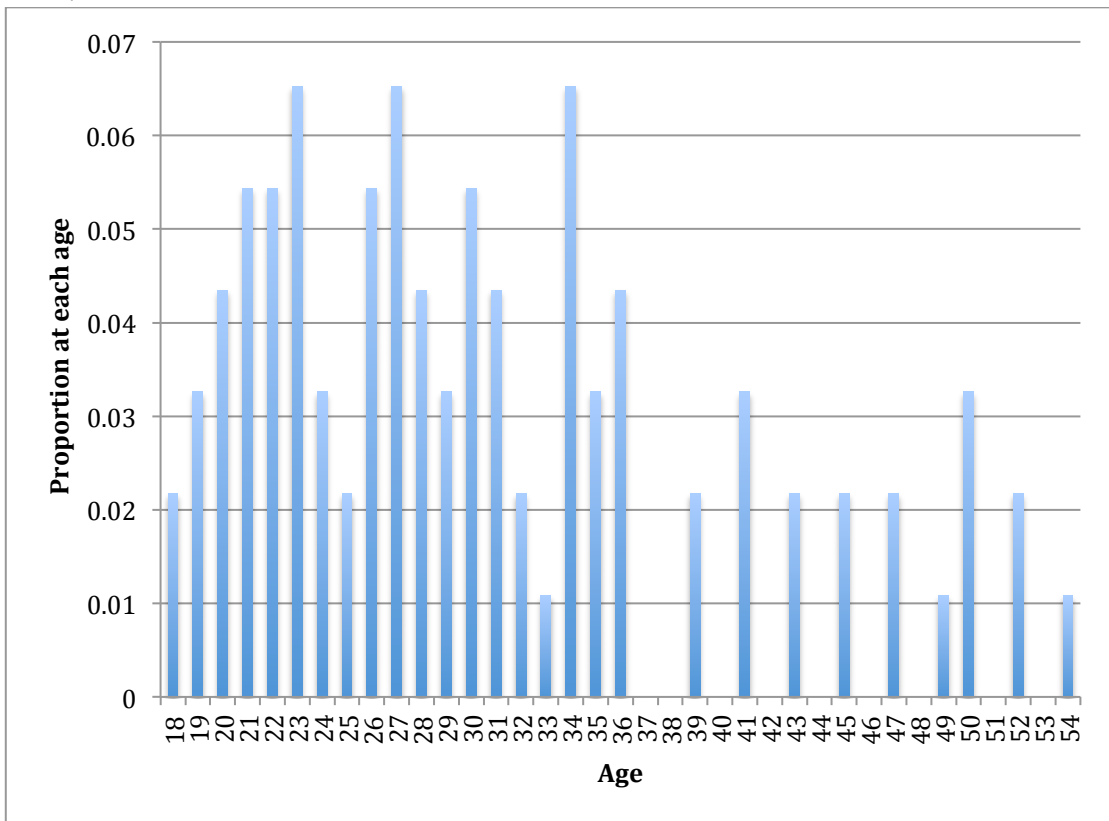
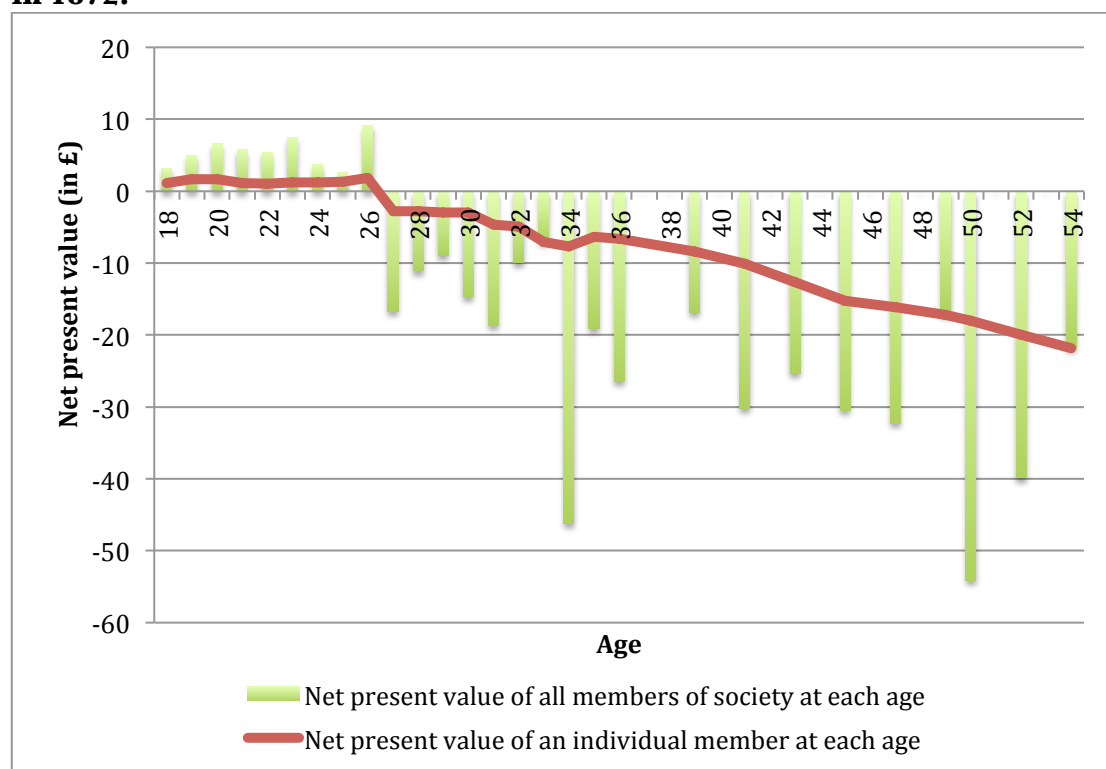


Figure 1.7: Net value of all members at each age in a hypothetical lodge in 1872.



Source: Figures 1.1-1.7, Ratcliffe, *Observations* (1850), pp.168-9; Ratcliffe, *Independent Order of Oddfellows*, pp.150-151. Note: Present value of future contributions minus present value of future benefits.

When the process of valuation revealed an estimated surplus of assets over liabilities, the society was said to be ‘solvent’. When the reverse was true the society was said to have a ‘deficiency’. These were technical terms and should be used with caution. A deficiency was the estimated amount of additional money that a society would require to enable it to meet all its promised benefits up to the longest life of its existing members. Critically the valuation methodology did not factor in the recruitment of additional members. Technical solvency meant a society could close its doors to new members and still payout all likely future benefits.¹⁴¹

Before discussing the results of the 1881-1886 valuation it is necessary to explore some of the problems involved in using valuations as an indicator of the financial viability of societies. Emery and Emery, Broten and Ismay have argued that there were a number of flaws in the methodology and that this undermines the conclusion that friendly societies were financially fragile.

¹⁴¹ This definition of insolvency is from R. Campbell, *Provident and Industrial Institutions* (Manchester, 1924), p.261.

Firstly, the robustness of the valuation was dependent on the accuracy of predictions of mortality and morbidity. As Wilkinson made clear, the valuation was only ‘an estimate that depends on the present condition of circumstances continuing’.¹⁴² Wilkinson also noted that societies had to be large enough ‘to allow for the due working of the law of averages’.¹⁴³ Actuarial predictions of age-specific morbidity were ultimately averages, calculated by dividing the total number of sick days of members at each age by the number of members at each age. Societies had to be of a certain size to ensure a sufficiently high probability that their claims experience would accord with the average rates calculated in the tables. This presented the affiliated orders with a simple sampling problem: the smaller the branch, the more likely that mortality and morbidity rates would significantly diverge from those predicted in the valuation. Emery and Broten have argued that because the valuation made no provision for fluctuations in the annual cost of claims it was a poor measure of a branch’s risk of ruin in a given year.¹⁴⁴

Source material relating to how much observed morbidity rates deviated from actuarial predictions is scarce. The branch level valuation tables published by the British Registrar did not include this information.¹⁴⁵ The annual reports by the New Zealand Registrar of friendly societies were much more detailed. Between 1905 and 1909 the Registrar published valuation tables for a large number of branches of the Foresters and the Oddfellows that listed predicted and observed sickness rates.¹⁴⁶ Although these data relate to New Zealand they are indicative of the accuracy of actuarial estimates more broadly. **Figure 1.8** shows the observed cost of sickness as a percentage of the predicted cost of sickness for a sample of 385 branches. The mean difference was just -0.88%, suggesting that actuarial projections were fairly accurate.

¹⁴² Wilkinson, *Mutual Thrift*, p.235.

¹⁴³ *Ibid.*, p.258.

¹⁴⁴ Emery, ‘Risky Business?’, p.201; Broten, ‘From sickness to death: the financial viability’, p.27; Contemporaries were aware of this, see *Friendly Societies: Report of the Registrar for New Zealand for the Year 1910*, in AJHR, Session I, section H-01, (1911), p.9.

¹⁴⁵ Although after 1900 the Registrar did publish county-level tables comparing expected and actual cost of sickness, see *Reports of the Chief Registrar of Friendly Societies for the year ending 31 December 1904* [41], (P.P., 1905, LXXV), pp.83-4; *Reports of the Chief Registrar of Friendly Societies for the year ending 31 December 1905* [55], (P.P., 1906, CXII) pp.122-123; *Reports of the Chief Registrar of Friendly Societies for the year ending 31st December 1906* [49], (P.P., 1907, LXXVIII), pp.103-4. In these reports overall the expected and actual cost of sickness diverged by 1.63%, 1.94% and 0.32% respectively.

¹⁴⁶ Volumes of *Friendly Societies: Report of the Registrar for New Zealand for the Year 1904*, in AJHR, Session I, section H-01, (1905), p.15; and in reports for the years 1905, pp.18-19; 1906, pp.21-22; 1907, pp.26-28; 1908, pp.22-26; and 1909, pp.34-36.

Overall 55% of branches had morbidity rates lower than expected. Emery and Broten are correct to argue that predicted and observed claims rates diverged and therefore average morbidity rates were a bad indication of the likelihood of a societies collapsing in anyone year. This is true, but **figure 1.8** shows that extreme deviations were rare. Both the Kolmogorov-Smirnov and Shapiro-Wilk tests indicate that these data are non-normally distributed.¹⁴⁷ As the bars peaking above the normal curve in **figure 1.8** indicate, the results were actually more clustered around the mean than in a normal distribution. In a normal distribution 68% of cases lie within one standard deviation, but in these data 74% lie within this range. In effect this meant that branch level morbidity rates were compressed around a ‘safe’ bandwidth either side of the predicted rate. Indeed 70% of the branches in the sample were within 30% of the predicted morbidity rate. The average morbidity prediction used by actuaries was based on the age structure of the individual members of the lodge, whereas Emery and Broten use lodge level data (the average age of the members, age of the lodge, whether it was in rural or urban area) to ‘predict’ the likely claims experience. Given that actuaries used individual level data and the actual morbidity experience of societies diverged from the predicted experience in a predictable way, i.e. non-normally with clustering around the mean, it is just as reasonable to use actuarial predictions rather than a lodge level regression model to estimate morbidity rates.

A second criticism is that actuaries often made inaccurate predictions about future interest rates.¹⁴⁸ As the New Zealand Registrar of friendly societies summarised in 1909, ‘the attainment of a good rate of interest is not a mere luxury; it is a necessity, and the more so when contributions are ordinarily inadequate’.¹⁴⁹ Varying the assumed interest rate affected the present value of future contributions and benefits, raising it had the effect of improving the valuation results, making the society appear in a better financial position.¹⁵⁰ In 1870 the valuation of the Oddfellows used a rate of 3% for every lodge. In 1875 a large number of lodges used a rate of 4%, resulting in a reduction in the deficiency by 60%. The actuary Alfred Watson called

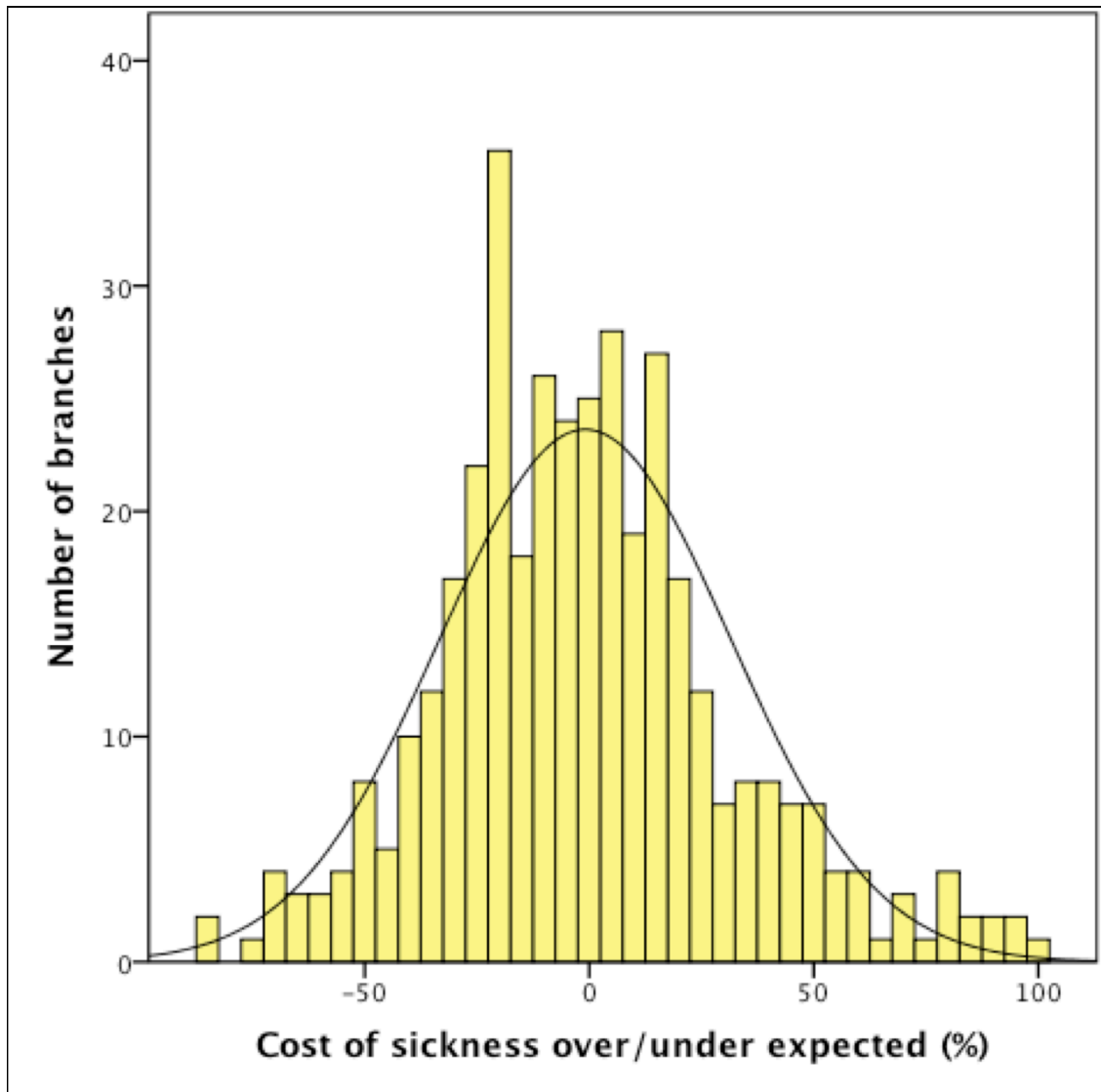
¹⁴⁷ Kolmogorov-Smirnov test statistic of 0.064, with a p-value of 0.001. Shapiro-Wilk test statistic of 0.973, with a p-value of 0.000.

¹⁴⁸ Emery and Emery, *A Young Man’s Benefit*, p.69.

¹⁴⁹ *Friendly Societies: Report of the Registrar for New Zealand for the Year 1908*, in AJHR, Session II, section H-01, (1909), p.8.

¹⁵⁰ R. Watson, *The Causes of Deficiencies in friendly societies, and some remarks on hazardous occupations* (Manchester, 1889), p.16.

Figure 1.8: Histogram of the actual cost of sickness as a percentage of the predicted cost, New Zealand branches of the Foresters and Oddfellows, 1905-1909.



Sources: *Friendly Societies: Report of the Registrar for New Zealand for the Year 1904*, p.15; and report for the years 1905, pp.18-19; 1907, pp.26-28; 1908, pp.22-23; 1909, pp.34-36. Note: Line shows the normal distribution line. N size = 384.

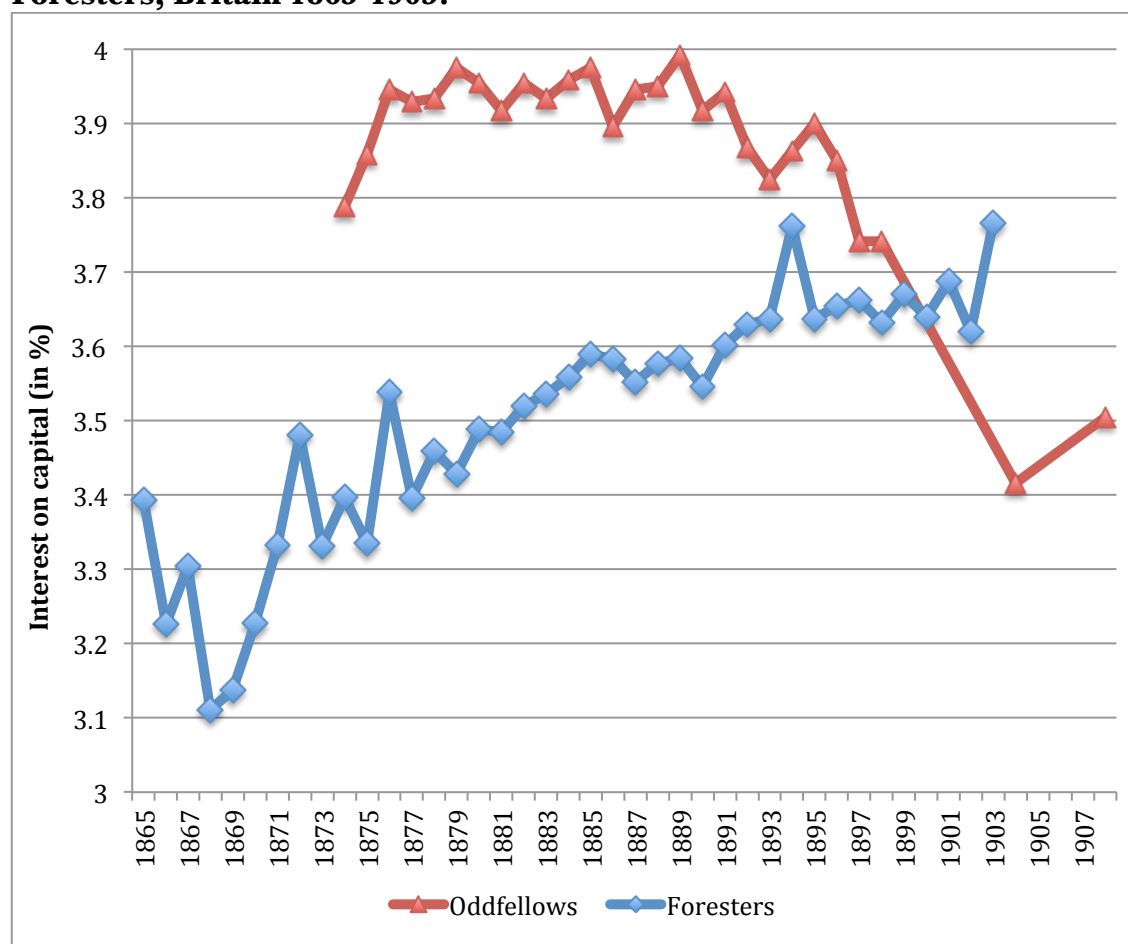
this improvement ‘largely illusory’.¹⁵¹ When the rate was pulled back to 3% in 1880 it meant that the society showed a large deficiency, at a time when many were expecting an improvement after years of reform.¹⁵² The sensitivity of valuation results to the interest rate assumed does not invalidate the results of the process, nor does it undermine the conclusion that the friendly societies were financially flawed. Actuaries tended to be optimistic and used interest rates that were higher than a society’s historical experience. Over the final quarter of the nineteenth century the rate of

¹⁵¹ Watson ‘Some points’, p.174.

¹⁵² *Ibid.*, pp.174-5.

return on capital in the Oddfellows fell, particularly after 1895. In the Foresters there was a clearer upward trend over the period 1865-1903, but from a lower starting point and the society never achieved an overall rate of return higher than 3.8% (see **figure 1.9**). Variation in the interest rate achieved by branches will be discussed in more detail later in this chapter. At this point it is simply worth noting that it was common for valuations to underestimate the size of a society's deficiency. A related issue is that neither Victorian actuaries nor historians since have collected data on the rate of interest achieved by individual branches. Helpfully, the 1881-1886 returns listed the interest rate assumed and the upper and lower bounds of the interest rate achieved over the previous 5 years. This can be used to estimate the median interest rate achieved. In the Oddfellows and Foresters 37.93% and 70.67% of branches used an interest rate higher than the median achieved in the preceding 5 years (see below). This meant that the valuation of the Oddfellows was slightly pessimistic whilst that of the Foresters was more optimistic. As will be discussed, the overall conclusion of the valuation was that the Oddfellows were far more stable than the Foresters, despite the majority of branches using a pessimistic interest rate.

Figure 1.9: Interest on capital achieved (in %) by the Oddfellows and the Foresters, Britain 1865-1903.



Sources: Landis, *Friendly Societies*, p.41; Moffrey, *A Century*, p.196; *Directory of the Ancient Order of Foresters Friendly Society for 1881*, pp.344-345 (FHT); *Directory of the Ancient Order of Foresters Friendly Society for 1900*, pp.520-521 (FHT); *Directory of the Ancient Order of Foresters Friendly Society for 1907*, pp.582-587 (FHT).

A third and more important criticism is that the valuation methodology was inappropriate for the pay-as-you-go nature of friendly societies.¹⁵³ According to Broten ‘societies kept their record books such that each year’s payments were balanced against contributions in that year’.¹⁵⁴ This is only partially true. Early friendly societies seemed to be run according to a levy system, where contributions were varied according to the claims made in any one year. In the early nineteenth century the Friendly Brother’s Society in Kent, for example, varied the initiation fee ‘as the stock of the society may require’.¹⁵⁵ The same policy was adopted in branches of the larger and more sophisticated affiliated societies. In 1848 James Roe, a senior official in the Oddfellows, noted to a Select Committee that ‘up to 1824 there were

¹⁵³ Emery and Emery, *A Young Man’s Benefit*, p.68-9; Broten, ‘From sickness to death: the financial viability’, p.25, and Ismay, ‘Between Providence’, pp.112-125.

¹⁵⁴ Broten, ‘From sickness to death: the financial viability’ p.25.

¹⁵⁵ Ismay, ‘Between Providence’, pp.8-9.

no regular rates of payment in sickness, nor of contributions... when sickness occurred the members used to contribute amongst themselves'.¹⁵⁶ Yet critically the pay-as-you-go system was displaced as societies grew in size and the sickness benefits system became more formal.¹⁵⁷ Actuarial valuations may have been inappropriate for pure pay-as-you-go schemes, but the character of the friendly society movement changed substantially in the middle decades of the nineteenth century. Once the Oddfellows started to distribute fixed sums in benefits and allow members to forgo contributions whilst infirm then it was no longer viable to simply vary benefits and contributions as and when required.¹⁵⁸ By the mid-nineteenth century the large affiliated orders were operating funded insurance schemes, accumulating reserve capital, not simply paying for benefits out of annual income. Initially this was achieved by accumulating funds through flat contributions; members paid the same regardless of age of entry, but the ratio of contributions to benefits was such that there was usually a surplus.¹⁵⁹ As discussed, in 1845 the Oddfellows' AMC ordered that every lodge increase contributions relative to benefits.¹⁶⁰ In effect this de-linked contributions from benefits, leaving a surplus, and introduced the principle that benefits should be funded out of a stock of capital. The next phase of reform involved accumulating reserves through graduated contributions. Graduated pricing was introduced in the Oddfellows in 1853 and the Foresters in 1872. Although some branches remained intransigent, by the passage of the 1875 Friendly Society Act, which made quinquennial valuations compulsory, the vast majority of branches were operating funded insurance schemes suitable for the valuation methodology.

By 1875 the Forester and the Oddfellows were, in principle, funded insurers. Yet because many branches charged inadequate contributions repeated valuations over the final quarter of the century revealed a deficiency. Emery and Emery have argued that this was unimportant because any deficiency went unrealised as long as societies could add new members.¹⁶¹

¹⁵⁶ *Report from the Select Committee of the House of Lords on the Provident Association Fraud Prevention Bill* [648], (P.P., 1847-8, XVI), p.87.

¹⁵⁷ Ismay, 'Between Providence', p.18.

¹⁵⁸ Moffrey, *A Century*, p.188.

¹⁵⁹ Gosden, *Self-help*, p.50.

¹⁶⁰ *Ibid.*, pp.54-55.

¹⁶¹ Emery and Emery, *A Young Man's Benefit*, p.69; Broten, 'From sickness to death: the financial viability', p.26.

There are a number of responses to Emery and Emery's critique. Firstly over the nineteenth century many friendly societies found it increasingly difficult to attract young members. As will be demonstrated in chapter 3, between 1860 and 1900 the average age of new members of the Oddfellows crept upward. This made it more difficult to defer the realisation of a long-term deficiency. Secondly, it would have been almost impossible for actuaries to make robust predictions about how many individuals might join a branch and how old they might be. In many ways a valuation did capture the ability of a society to cover an outstanding deficiency by adding new members because the method factored in *historic* admission rates. If a society had recruited a large number of younger members who paid in more than they claimed (and were predicted to continue to do so) this would have increased the realised assets of the society and therefore reduced the deficiency. In effect Emery and Emery have reiterated the widespread Victorian criticism that some friendly societies were operating as failing pay-as-you-go schemes, deferring the realisation of a long-term financial shortfall by adding new members. The only difference is that Emery and Emery see this as an advantage and Victorian actuaries saw it as a flaw. In 1848 the liberal Lord Beaumont introduced the friendly societies Bill to the Lords by expressing his concern that 'the young members of the society paid for the old, and unless there was a constant influx of the former, and a corresponding removal of the latter, the society soon became insolvent'.¹⁶² Recruiting new members might have meant that a deficiency was not realised in the short run but there remained a long run problem. Moreover many societies were charging new members inadequate contributions, meaning that the size of the long-term deficiency got bigger with more new members. It is true that the valuation approach may not have given a good impression of the likelihood of failure in a given year.¹⁶³ To say one society had a deficiency of £1000 and another of £100 did not mean that the former was ten times more likely to collapse, given that the society could stabilise itself by adding young members. However the valuations do give an indication of the long-term financial position of a society.¹⁶⁴

¹⁶² Cordery, *British Friendly Societies*, p.131

¹⁶³ Emery and Emery, *A Young Man's Benefit*, p.69; Broten, 'From sickness to death: the financial viability', p.27.

¹⁶⁴ Broten, 'From sickness to death: the financial viability', p.27; Emery, 'Risky Business?' p.201.

In theory a pay-as-you-go scheme can exist as long as new individuals are added to the scheme. This issue will be explored further in chapter 6 in relation to American fraternal life insurers, which remained pure pay-as-you schemes until the First World War. Yet in practice this was difficult. If population growth slowed the society could still survive, but the cost for members would increase. A reduction in admissions, an increase in secessions, an increase in the average age and consequently the mortality and morbidity rate made it more difficult for a pay-as-you-go friendly society to recruit and avoid bankruptcy. Moreover a combination of these forces would increase the size of the rolling deficiency that had to be born by new and future members. The valuations give an indication of the extent to which societies were operating as *viable* schemes, and how big the deficiency would be if the scheme failed. There is a logical fallacy in Emery and Emery's argument that the continued existence of friendly societies meant that they were necessarily viable. This implies that the only failed societies are those that did not exist, making it very hard to identify those that were in the process of failing. An alternative interpretation is that many friendly societies survived precisely because they gradually eliminated the pay-as-you-go element in their organisation.

A fourth issue with the valuation methodology is that it did not take into account the exodus of members from a society.¹⁶⁵ When estimating the present value of future contributions and benefits actuaries used data on life expectancy to predict the average duration of membership. This was clearly unrealistic because a large number of members left for other reasons. Members who seceded left their accumulated contributions behind but could no longer claim benefits. Therefore secessions increased the ratio of assets to liabilities. As in the case of admissions, actuaries did not make projections into the future about secessions and this exaggerated the scale of insolvency.

This criticism has also been overstated. As was the case with admissions, it was impossible for actuaries to know how many members would secede or how old they would be. Moreover secessions during the course of the valuation, and before, did have an impact on the outcome. If a society had experienced a large exodus of

¹⁶⁵ Emery and Emery, *A Young Man's Benefit*, p.69; Broten, 'From sickness to death: the financial viability', p.27.

members at the start of the quinquennium then this would have increased the stock of capital (realised assets) relative to the societies future liabilities. As Henry Ratcliffe pointed out in his explanatory note on the 1870 valuation of the Oddfellows, ‘secessions of members give a profit to the Society, and tend to create a surplus’.¹⁶⁶

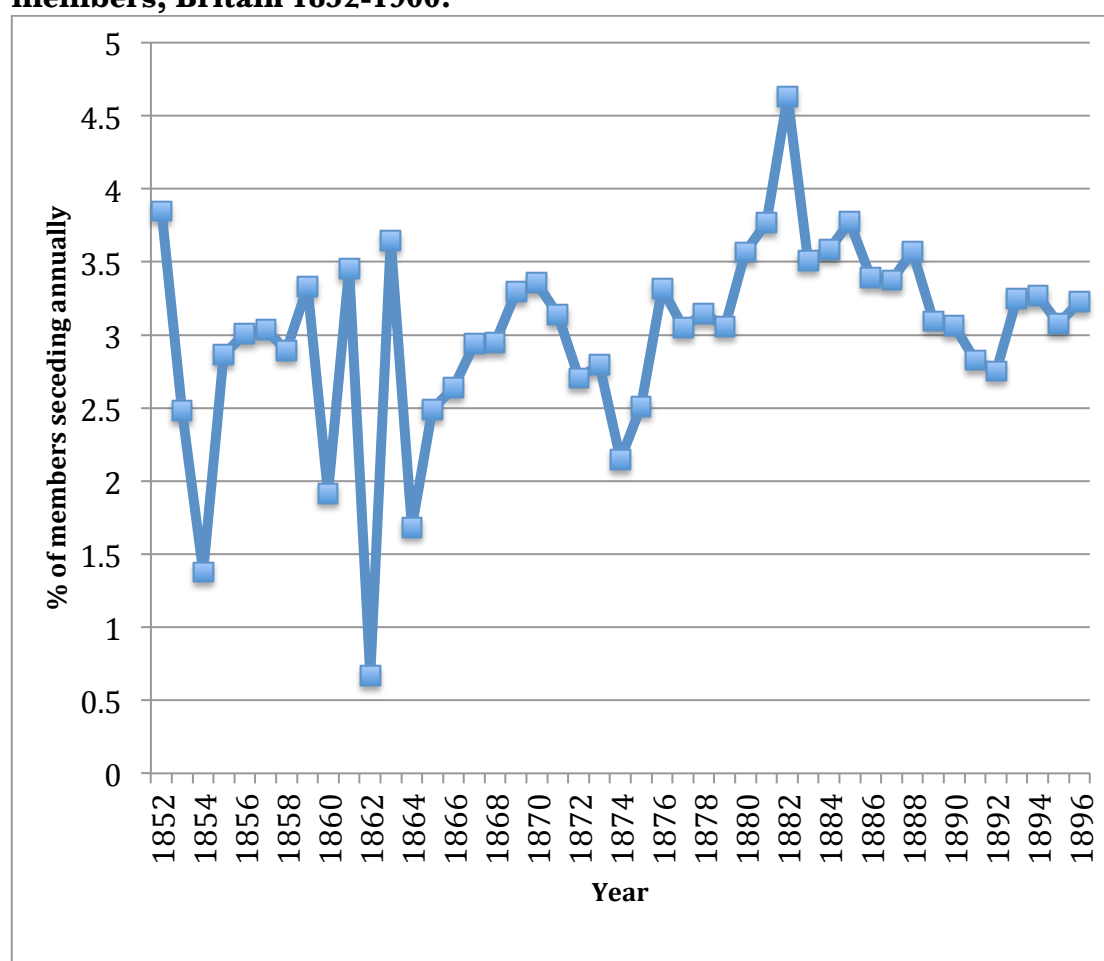
Revisionists like Emery and Broten have criticised actuaries for ignoring secessions but they have not investigated whether the volume of secessions was significant. Broten noted that ‘statistics vary year-by-year but suggest strongly that member exits were non-trivial’. Broten did not cite any figures to support this claim and the annual figures for the Oddfellows suggest the opposite; across the entire period secessions were never higher than 4.5% of members per annum (see **figure 1.10**).¹⁶⁷ It also seems that the wrong members were leaving. The most valuable scenario was for members to join young and leave just before the age of 40 when morbidity and mortality rates started to increase rapidly, thereby leaving behind years of contributions. In reality the probability of secession peaked at the age of 23 and steadily fell thereafter (see **figure 1.11**).¹⁶⁸ Between 1873 (the earliest year for which we have the relevant data) and 1903 the probability of secession of members aged 18-25 increased markedly. These members had only been contributing for a short period of time and therefore left behind meagre sums in contributions. Finally it is somewhat contradictory to see both high rates of admissions and high rates of secessions as benefiting the friendly societies. Emery and Emery argue that the addition of young members allowed friendly societies to operate effective pay-as-you-go schemes. It therefore follows that the exit of a high proportion of these young members undermined the pay-as-you-go system.

¹⁶⁶ *MUQR*, 1st February 1873 p.83.

¹⁶⁷ See also Wilkinson, *Mutual Thrift*, p.162.

¹⁶⁸ Toynbee, ‘The Present’, p.905.

Figure 1.10: Secessions from the Oddfellows as a percentage of members, Britain 1852-1900.



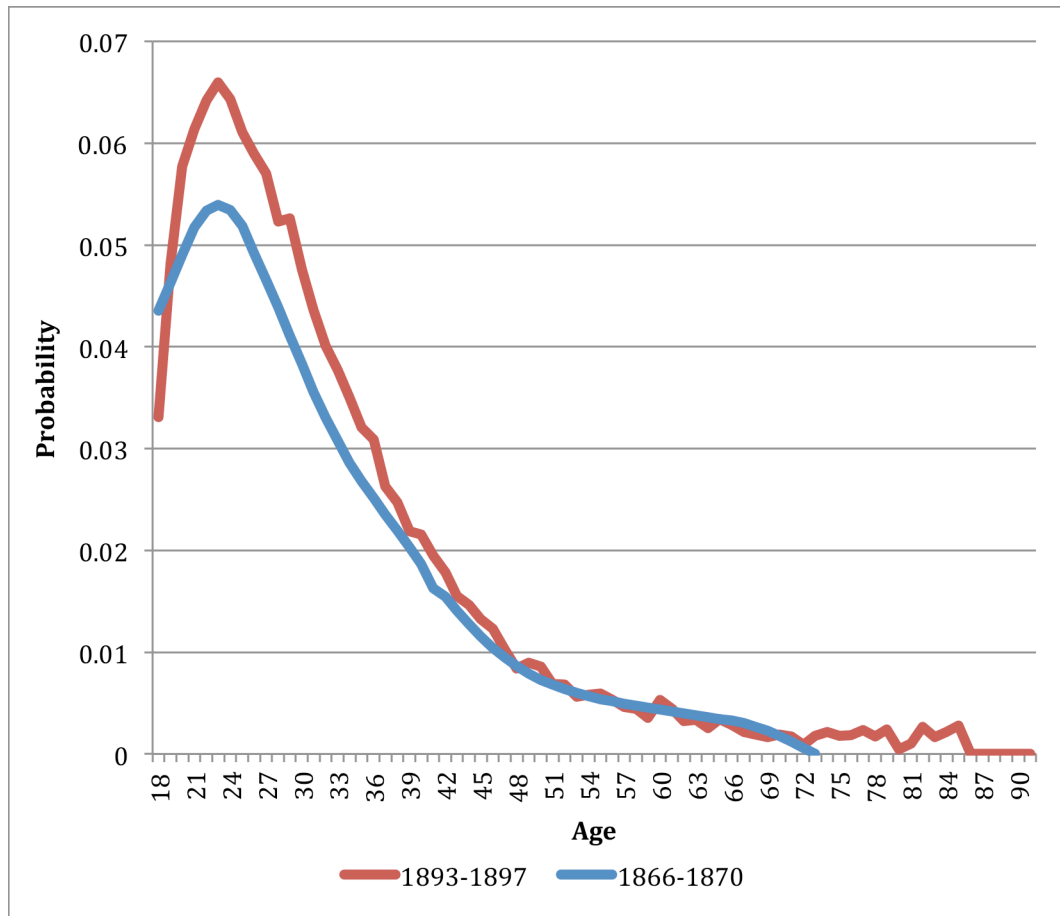
Source: *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1896* (Manchester, 1896), p.310 (OOA).

A fifth issue is that the valuation methodology did not factor in the possibility that members could periodically increase their contributions and/or actively reduce their claims.¹⁶⁹ As Moffrey noted, ‘the lodge can continue its work by making a rearrangement of its mutual bargain with its members, who are in a position of both debtors and creditors... it is, therefore, incorrect to describe any lodge with a deficiency on valuation as necessarily insolvent’.¹⁷⁰ Within an individual society it was possible for the members to call a levy and make up any short-term deficiency. It was also possible for members to reduce their sickness claims below the historical average. Yet in the absence of structural reform a society would regress back into a deficiency.

¹⁶⁹ Emery and Emery, *A Young Man’s Benefit*, p.69; Broten, ‘From sickness to death: the financial viability’, p.26.

¹⁷⁰ Moffrey, *A Century*, p.191.

Figure 1.11: Probability of secession over the life course, relating to members of the Oddfellows in 1866-70 and 1893-97 in Britain.



Source: Watson, *An Account*, pp.138-141; Ratcliffe, *Independent Order of Oddfellows*, pp.121-122.

As Cordery has argued, levies encouraged insolvency by convincing members that reserve funds were unnecessary because the membership could always be relied upon to provide funds.¹⁷¹ This was only possible if members, both existing and prospective, were both willing and able to increase their contributions. This was doubtful given the decline in the number of young individuals joining (see chapter 3) and the rise in the number of young members seceding. Finally it is not strictly accurate to say that actuaries assumed that members could not renegotiate future contributions and benefits. Indeed actuarial reformers operated on the assumption that a deficiency could be gradually eliminated if existing members could be moved over onto adequate graduated contribution scales.

¹⁷¹ Cordery, *British Friendly Societies*, p.132.

A related criticism of the valuation methodology is that it was inappropriate for the affiliated societies because it assumed that each branch was an independent entity. In theory a society's assets were restricted to capital in hand and the future contributions from existing members. Yet in practice branches had access to a much broader pool of 'assets' because struggling branches could turn to the organisation as a whole for relief.¹⁷² The Royal Commission of 1874 concluded that one of the major reasons for the success of the affiliated orders was that branches were 'linked together by a strong moral bond of union'.¹⁷³ As Ismay has shown in the case of the Oddfellows, solidarity between lodges made it possible to distribute financial burdens that threatened to overwhelm individual lodges.¹⁷⁴ There were a number of 'whip-rounds' in response to particular events. For example in 1862 £10,000 was raised for the relief of lodges affected by the Cotton Famine.¹⁷⁵ Over the second half of the nineteenth century intra-lodge assistance became more formalised. From the 1830s the Benevolent Fund Sub-Committee and then the Relief Committee met annually to discuss assisting struggling lodges. If sufficient funds were not available a circular was sent to all lodges calling for donations. In 1888 the Relief Committee complained that there weren't sufficient funds available to help distressed lodges.¹⁷⁶ Consequently in 1891 the Salisbury AMC passed a motion compelling members to contribute 1p per annum to a central Unity Sick and Funeral Fund from which the committee could distribute aid. It did so to tune of £8158 between 1891 and 1900.¹⁷⁷ As discussed, in the Foresters the Benevolent Fund was financed in the same manner and was used to support courts with a deficiency.

As important as these forms of risk pooling were, they do not invalidate the utility of valuation data nor do they undermine the argument that actuarial reforms were necessary. Ismay is correct to suggest that valuations exaggerated the deficiencies of branches because the method didn't factor in inter-branch transfers. Yet this does not disprove the counterfactual claim that were it not for actuarial reform even greater sums would have been required to shore up weaker branches. An

¹⁷² Moffrey, *A Century*, p.188.

¹⁷³ Moffrey, *A Century*, p.17.

¹⁷⁴ Ismay, 'Between Providence', p.19.

¹⁷⁵ Moffrey, *A Century*, p.10, 60; C. Hardwick, 'The Distress in the Cotton Manufacturing Districts', *Oddfellows' Magazine*, (Oct, 1862), pp.201-203.

¹⁷⁶ Moffrey, *A Century*, p.114.

¹⁷⁷ Landis, *Friendly Societies*, p.48; Ismay, 'Between Providence', p.30.

important point that Ismay does not discuss is that the distribution of relief to struggling branches was conditional on actuarial reform. In a discussion on establishing a fund to assist distressed lodges at the Ipswich AMC of 1890 it was made very clear that aid would only be granted if a lodge agreed to a number of reforms, including the adoption of graduated scales of contribution.¹⁷⁸ At the Portsmouth AMC of 1900 Provincial Grand Master Walton explained that whilst ‘monetary assistance was of great value, it was not granted unless it was accompanied with the assurance that reforms would be carried out, and that ... [if] lodges and districts were not acting loyally, they [the Relief Committee] recommended that the help so generously given should cease’.¹⁷⁹

Section 3: The 1881-1886 valuation of the Oddfellows and the Foresters

In 1889 the office of the Registrar of friendly societies, the government office responsible for registering the rules of societies and providing advice and assistance, published detailed statistical tables based on the 1886 returns from societies and the results of the quinquennial valuation for the period 1881-1886.¹⁸⁰ These tables are a valuable source hitherto unused. The volume of data published in 1889 was enormous, making it necessary to focus on a sub-set of societies. As discussed, focusing on the Foresters and Oddfellows makes for a useful comparison because of the varying commitment to actuarial reform. No doubt because of the difficulties involved in compiling the results for individual branches Victorian authors analysed the aggregate results of valuations, lumping together all branches.¹⁸¹ Historians have

¹⁷⁸ Moffrey, *A Century*, p.111

¹⁷⁹ Landis, *Friendly Societies*, pp.48-9.

¹⁸⁰ *Reports of the Chief Registrar of Friendly Societies, for the year ending 31st December 1887, Part II – List of societies with branches, registered under the Friendly Societies Acts as at 31 December 1886, with abstract of last annual return and particulars of valuations received, relating to the five years ending that date, Part II – (A.), Independent Order of Odd Fellows, Manchester Unity*, [113], (P.P, 1889, LXXI); and *Reports of the Chief Registrar of Friendly Societies, for the year ending 31st December 1887, Part II – List of societies with branches, registered under the Friendly Societies Acts as at 31 December 1886, with abstract of last annual return and particulars of valuations received, relating to the five years ending that date, Part II – (A.), Ancient Order of Foresters and Ancient Order of Shepherds*, [113-I], (P.P., 1889, LXXI).

¹⁸¹ Wilkinson, *Mutual Thrift*, pp.236-240; Watson ‘Some points’, pp.174-176; W. Brabrook, ‘On the Progress of Friendly Societies and other Provident Institutions During the Ten Years 1904-1914’, *Journal of the Royal Statistical Society*, 78, 3, (1915), p.418; Brabrook, ‘On the Progress of Friendly Societies and Other Institutions Connected with the Friendly Societies Registry Office during the Ten Years 1894-1904’, pp.326-327.

generally recycled these figures.¹⁸² This obscures a great deal and misrepresents how affiliated societies worked. Branches did not share assets or liabilities. It is true that some funds flowed between branches through the relief schemes already discussed, but the amounts were meagre. Between 1891 and 1900 £8158 was distributed from the Oddfellows' central Unity Sick and Funeral Fund. To put this in perspective this was just 0.12% of the total worth of all the lodges of the Oddfellows in 1891 (£6,764,892). Overall one branch's surplus could not be used to offset another's deficiency.¹⁸³ To gain a true impression of the financial position of a society it is necessary to investigate the distribution of branch level results.

Using the 1881-1886 valuation returns it is possible to calculate two key performance metrics: the surplus/deficiency per member and the 'current ratio'. Both metrics were used by contemporaries and are used in financial economics today.¹⁸⁴ The surplus/deficiency per member is assets minus liabilities divided by the number of members. The 'current ratio' is an individual branch's assets as a percentage of its liabilities. A current ratio of 75% would mean that for every £1 of liabilities the branch had 75p of assets – the larger the figure the more financially viable the branch. The 1889 tables also included useful information on the number of admissions made in the course of 1886, the age of the branch, the interest on capital achieved between 1881 and 1886, the interest rate assumed in the valuation, and whether the branch charged uniform contributions.

Although both the Foresters and the Oddfellows adopted a number of actuarial reforms over the second half of the nineteenth century, these reforms were more far-reaching and complete in the Oddfellows. If these reforms had the desired effect then the branches of the Oddfellows should have performed better on the valuation. To understand why less complete reform, and in particular the persistence of charging uniform contributions, influenced the valuation results it is essential to understand the 'variable cost' problem faced by friendly societies. If branches were charging contributions that did not cover the liabilities that each new member

¹⁸² Ismay, 'Between Providence', pp.115-116; Cordery, *British Friendly Societies*, pp.125, 134; Gosden, *Self-help*, pp.101-103.

¹⁸³ Wilkinson, *Mutual Thrift*, pp.235, 244; Wilkinson, 'Friendly Society', p.723.

¹⁸⁴ Wilkinson, *Mutual Thrift*, p.240; Brabrook, 'On the Progress of Friendly Societies and Other Institutions Connected with the Friendly Societies Registry Office during the Ten Years 1894-1904', p.326; E. Banks, *Finance: The Basics* (London, 2007), p.39.

represented, then adding new members only increased the size of the lodge's long-term deficiency. A one off levy was a temporary solution.¹⁸⁵ As Reuben Watson, actuary to the Oddfellows, argued in his 1889 publication *The Causes of Deficiencies in Friendly Societies and some remarks on hazardous occupations*, 'no society can honestly rely on the contributions of future members to aid in any way the removal of deficiencies... if deficiencies exist they can, as a rule, only be reduced by reducing the benefits or increasing the contributions and funds in hand.'¹⁸⁶ In the case of existing members this involved increasing contributions to not only reflect future liabilities but also years of under-payment. Many considered this unfair and unrealistic. Henry Ratcliffe thought that equal contributions were unjust, but 'for those who have made these engagements, to repudiate them would be more unjust'.¹⁸⁷ Moffrey noted that at the AMCs of 1853 and 1864, when graduated tables were first introduced, 'the pioneers of financial reform had not attempted to make the increase in contributions... retrospective'.¹⁸⁸ When first valuation of the order in 1872 revealed a large deficiency the Oddfellows decided take more radical steps. The AMCs of 1872-1874 resolved to 'obtain from every member in the future the rate of contribution he should have paid from the time of initiation'.¹⁸⁹ From 1874 all members of the Oddfellows, new and existing, were moved onto graduated contributions. The Foresters were more cautious. The resolutions of 1865 and 1871 only affected new members, meaning that by 1886 a large number of members were still paying inadequate contributions. In both organisations the effect of reform would take years to work through, as older members died or left and younger members increased in proportion. In the Oddfellows it wasn't until 1899-1902 that the order was technically solvent (see **table 1.6**).

¹⁸⁵ Wilkinson, *Mutual Thrift*, p.88, and earlier Neison suggested that the Oddfellows needed a gift of £9.1 million to meet all its liabilities.

¹⁸⁶ Watson, *The Causes of Deficiencies*, p.10; Cordery, *British Friendly Societies*, p.128; Wilkinson, *Mutual Thrift*, p.236.

¹⁸⁷ Ratcliffe, *Observations*, (1850) p.167.

¹⁸⁸ Moffrey, *A Century*, p.89.

¹⁸⁹ *Ibid.*, p.89.

Table 1.6: Overall valuation results for the Oddfellows, Britain 1875-1907.

| Year | Current Ratio | Surplus/deficiency per member (in £.) |
|-------------|----------------------|--|
| 1875 | 36.41 | -0.80 |
| 1880 | 49.73 | -1.33 |
| 1889-1891 | 52.66 | -1.07 |
| 1894-1896 | 64.64 | -0.70 |
| 1899-1902 | 103.23 | 0.05 |
| 1904-1907 | 148.00 | 0.54 |

Source: Moffrey, *A Century*, p.192.

In the 1881-1886 valuation both organisations were technically insolvent. Table 1 shows the aggregate figures for both orders. The Foresters were in a far worse position, with a deficiency at the branch level (excluding the assets and liabilities of districts) of £4.21 per member, in contrast to £1.192 in the Oddfellows (see **table 1.7**). This translated into just 84p of assets for every £1 of liabilities in the Foresters.

Table 1.7: Overall results of the 1881-1886 valuation of the Oddfellows and Foresters, English branches.

| Order | Deficiency (in £.) | Per member (in £.) | Current Ratio (Assets/liabilities) | Deficiency as a % of liabilities |
|--------------|---------------------------|---------------------------|---|---|
| Oddfellows | 552,458 | 1.192 | 95.95 | 4.044 |
| Foresters | 1,853,796 | 4.210 | 84.23 | 15.76 |

Source: See footnote 180 page 58. *Note:* Sample restricted to branches, and excluding districts and branches sending incomplete returns.

To gain a true impression of the financial position of the two societies we have to disaggregate to the branch level. The following analysis is restricted to branches in England, and excludes the results for districts and branches that failed to send complete returns. Branches of the Oddfellows were better at sending returns than those of the Foresters (see **table 1.8**), reflecting the fact that the Oddfellows had required branches to send returns since 1844. On average the branches of the Oddfellows were far more financially solvent than the branches of the Foresters, with a mean current ratio of 95.14% (2909 branches) and 85.34% (2832 branches) respectively, a difference that is statistically significant at the 1% level.¹⁹⁰ In the Oddfellows 58.9% of lodges had a deficiency, with a current ratio of less than 100, and a large cluster were concentrated around the band between 87.1% and 111% per

¹⁹⁰ T-test statistic of 23.403, significant at the 1% level.

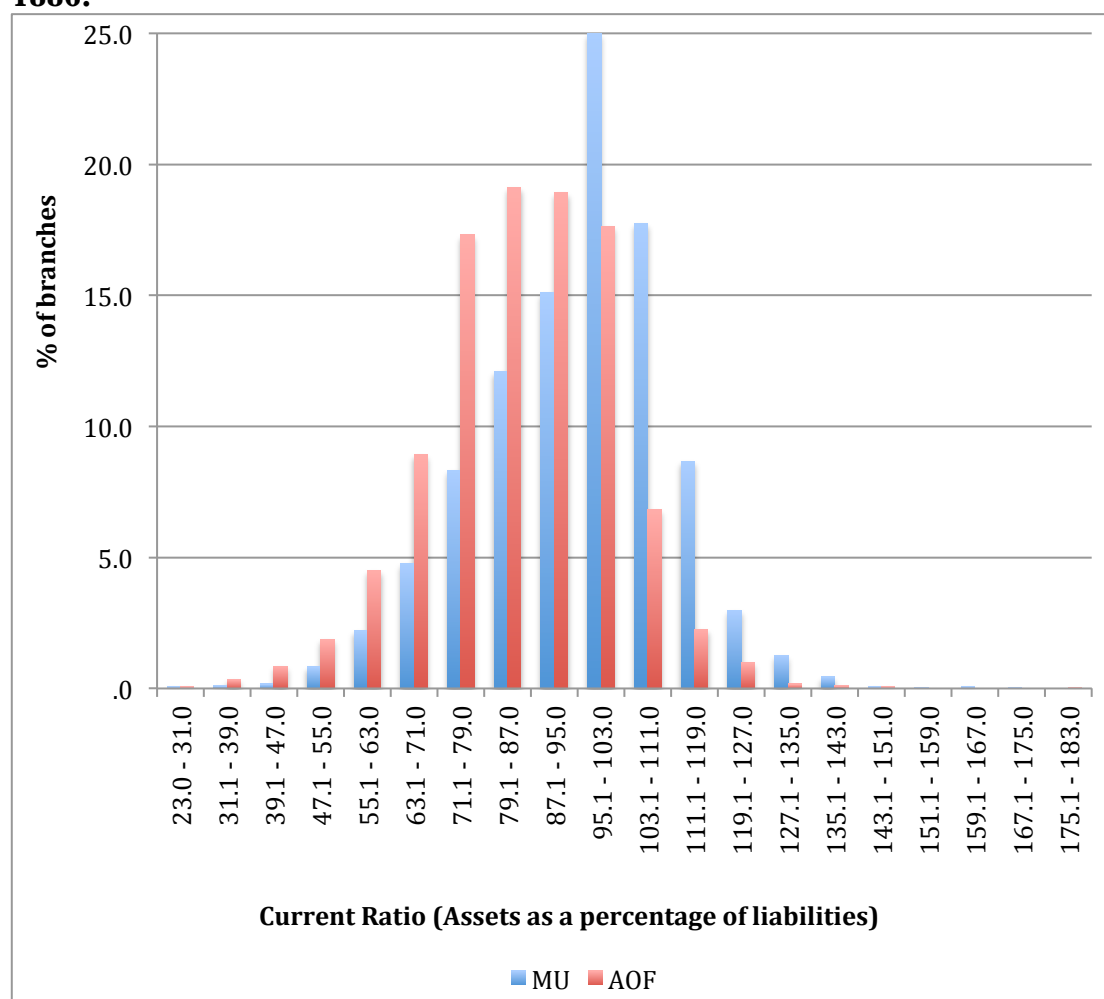
cent. The results for the Foresters were more extreme; as many as 83.6% of lodges had a deficiency and 72.9% were between the 71-103% banding. **Figure 1.12** shows the broad distribution of results in the two orders. These data suggest that in the absence of extensive actuarial reform the average branch of the Oddfellows would have been 9.8% less solvent.

Table 1.8: Branches of Oddfellows and Foresters sending incomplete valuation returns, England 1881-1886.

| | Oddfellows | Foresters |
|---|------------|-----------|
| Branches in 1881-1886 tables | 2970 | 3205 |
| Missing information on assets and liabilities | 57 | 364 |
| Missing information on number of members | 54 | 77 |

Source: See footnote 180 page 58.

Figure 1.12: Current ratio (assets as a percentage of liabilities) of branches of the Foresters (AOF) and Oddfellows (MU), England 1881-1886.



Note: Sample size of 2909 branches of the Oddfellows and 2832 of the Foresters. Source: See footnote 180 page 58.

The scale of the divergence is more intelligible when related to the individual member. The mean surplus/deficit per member of the branches of the Oddfellows was £1.52, with a standard deviation of £5.086 (see **table 1.9**). In the Foresters the comparable figure was £4.39, although with a larger standard deviation of £6.10. The difference between the mean surplus/deficiency per member in the two organisations was highly statistically significant.¹⁹¹ It is also notable that there were extreme results in the tails of the distribution but that this was less severe in the Oddfellows. The data for the Foresters had a larger standard deviation and a larger range (see **table 1.9**).

Table 1.9: Surplus/deficiency per member in branches of the Foresters and Oddfellows, England 1881-1886 (in £).

| Variable | Oddfellows | Foresters |
|--------------------|-------------------|------------------|
| Median | -0.702 | -3.493 |
| Mean | -1.529 | -4.391 |
| Standard Deviation | 5.086 | 6.102 |
| Minimum | -60.208 | -109.818 |
| Maximum | 21.111 | 17.639 |
| N | 2909 | 2832 |

Source: See footnote 180 page 58.

As discussed, the assumed interest rate used in the valuation had a large impact on the final outcome. It could be that the Oddfellows simply seemed in a better financial position because its branches assumed a higher interest rate. To control for this we can compare branches using the same interest rate. As shown in **table 1.10**, branches generally assumed an interest rate of 3% to 4%. A higher proportion of the branches of the Oddfellows assumed a rate of 3.5% than in the Foresters, but a lower proportion assuming a rate of 4% balanced this out. Another important issue is whether there was a relationship between the interest rate achieved between 1881 and 1886 and the rate projected into the future. Comparing the median rate achieved and the rate assumed it seems that the Oddfellows were more cautious than the Foresters; a higher proportion of branches assumed a rate of return lower than the one achieved over the previous 5 years (see **figure 1.13**). In effect the Oddfellows adopted a more pessimistic approach but still outperformed the Foresters.

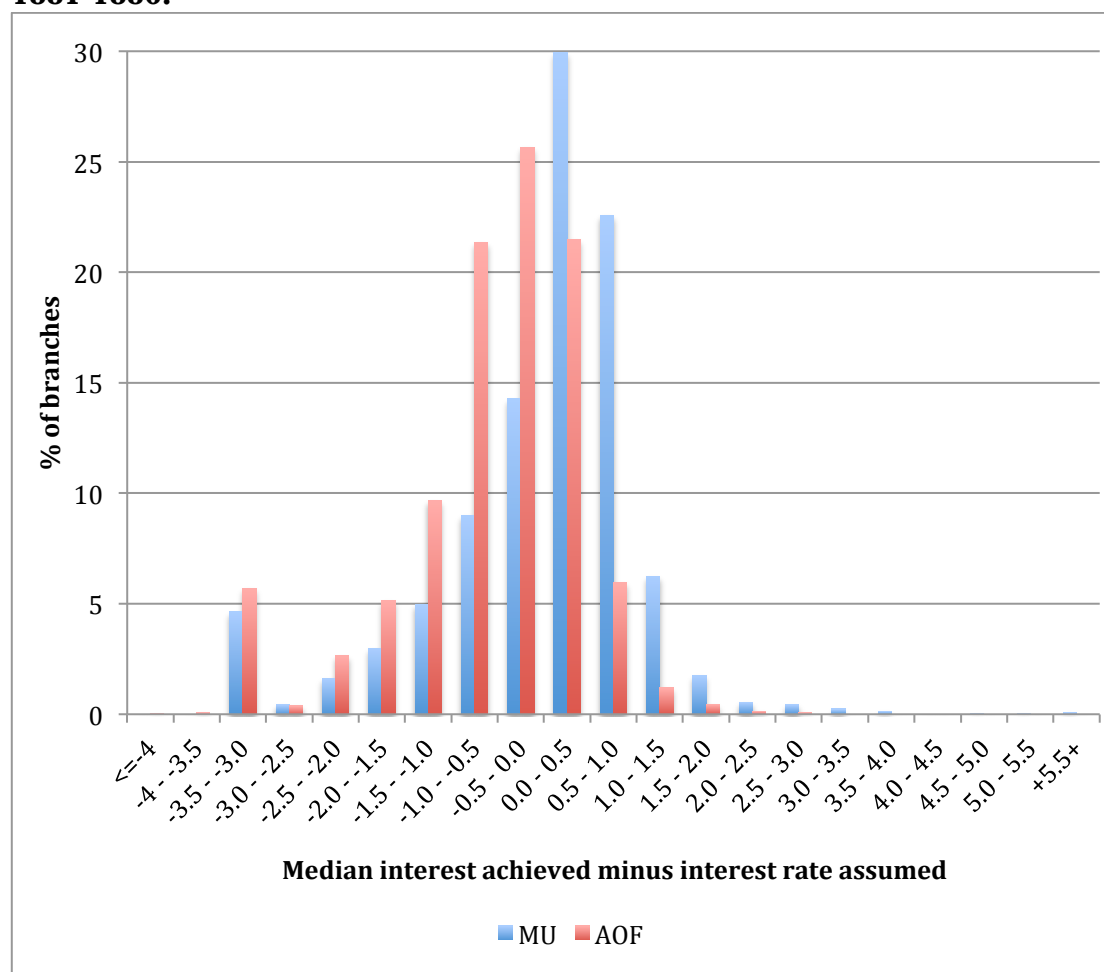
¹⁹¹ T-test statistic of 19.21 with a P-value of 0.000.

Table 1.10: Interest rate assumed in the valuation of future assets and liabilities, English branches of the Oddfellows and Foresters, 1881-1886.

| | Oddfellows | Foresters | Oddfellows | Foresters |
|---------------|--------------------|-----------|---------------|-----------|
| Rate used | Number of branches | | % of branches | |
| 3% | 2180 | 2263 | 74.83 | 79.65 |
| 3.50% | 551 | 305 | 18.91 | 10.73 |
| 4% or greater | 180 | 259 | 6.17 | 9.11 |

Source: See footnote 180 page 58.

Figure 1.13: Median interest rate achieved minus interest rate assumed in the valuation of the Oddfellows (MU) and Foresters (AOF), England 1881-1886.



Note: A positive figure indicates that the branch used an assumed interest rate lower than the mid point of the rate of return achieved between 1881 and 1886. Source: See footnote 180 page 58.

The superior performance of the Oddfellows was not a consequence of using higher interest rates in the valuation. **Table 1.11** restricts the sample to branches of the two organisations assuming a future rate of return on capital of 3%. Again, the Oddfellows outperformed the Foresters by a considerable margin, with a mean

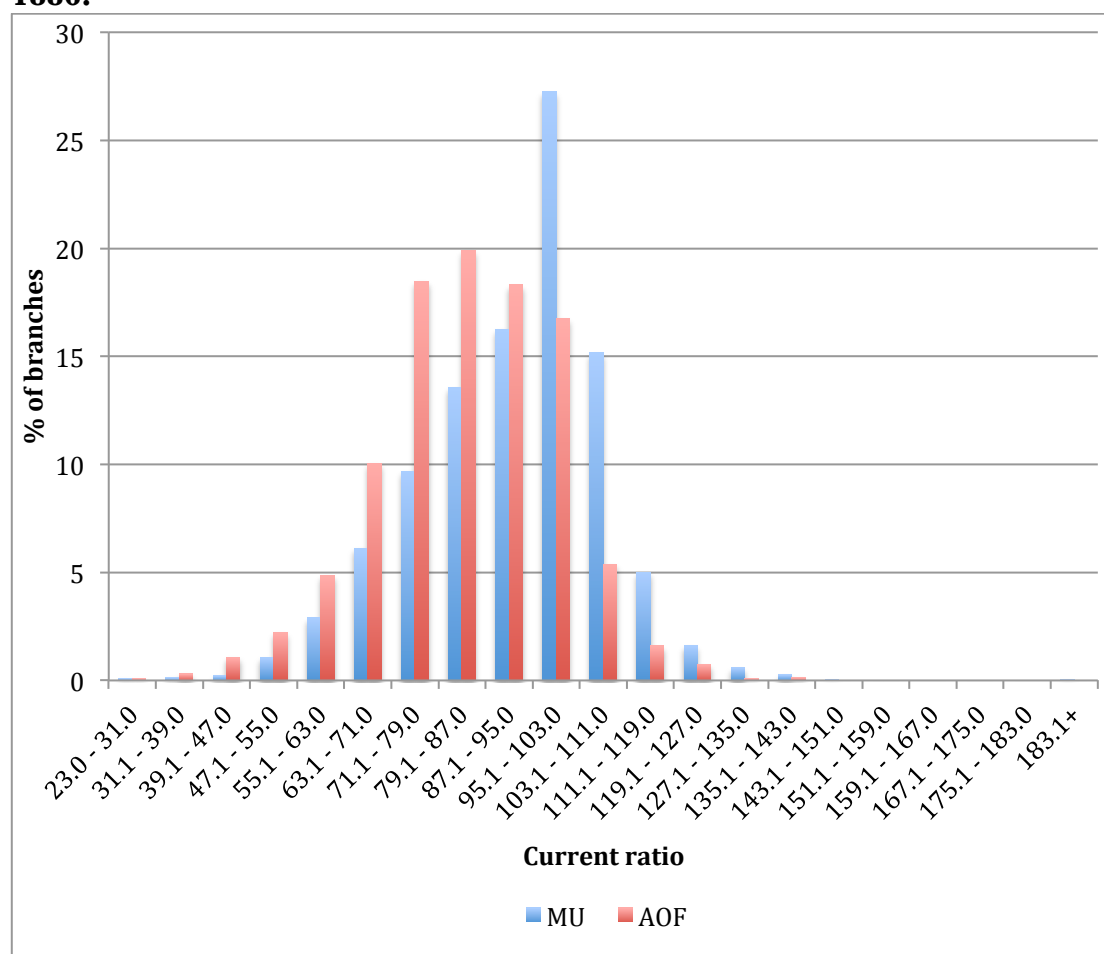
current ratio of 92% and 83% respectively (see **figure 1.14**). This translated into a mean deficiency per member of £2.40 in the Oddfellows and £4.80 in the Foresters.

Table 1.11: Financial viability of English branches of Oddfellows and Foresters using 3% interest rate in 1881-1886 valuation.

| | Oddfellows | Foresters | T test |
|--|--------------------------------|--------------------------------|---------------|
| Mean surplus/deficiency per member (in £.) | -2.422 (4.99) n = 2150 | -4.854 (6.19) n = 2237 | 17.73*** |
| Mean current ratio | 92.10% (15.59%) n = 2177 | 83.85% (15.07%) n = 2256 | 14.270*** |

Note: Standard deviations in parent thesis. *** denotes difference between the Foresters and Oddfellows is significant at the 1% level. *Source:* See footnote 180 page 58.

Figure 1.14: Current ratio of branches of the Foresters (AOF) and Oddfellows (MU) using interest rate of 3% in valuation, England 1881-1886.



Note: Sample size of 2177 branches of the Oddfellows and 2256 of the Foresters *Source:* See footnote 180 page 58.

Between 1881-1886 the Oddfellows also outperformed the Foresters with respect to the rate of return on capital. In the Oddfellows 63% of branches achieved a rate of return above the standard 3%. In the Foresters the comparable figure was just 47% (see **figure 1.15**). Over the final quarter of the nineteenth century the Oddfellows consistently outperformed the Foresters. However the rate of return on capital gradually improved in the Foresters (see **figure 1.9**). This was a consequence of a change in how branch funds were invested. Over the period 1873 to 1903 the proportion of capital invested in savings banks (both post office and trustee) fell, whereas the proportion in real estate, real securities and mortgages increased (see **table 1.12**). There was also a dramatic fall in the percentage invested in public and government securities.¹⁹² All affiliated societies reallocated funds in the same way (see **table 1.13**). The reallocation of capital into mortgages, debentures and fixed assets was mainly a consequence of the poor rates of return offered by the Post Office Savings Bank and the Trustees Savings Banks, which, as Paul Johnson has argued, offered rates well below market levels.¹⁹³ The change was desirable considering the higher return, but the Foresters were sacrificing liquidity. This was a significant issue. In chapter 4 it will be demonstrated that friendly societies in New Zealand had a preference for building halls and investing in property. The New Zealand government actuary was so concerned about this development that he pushed for the 1909 friendly society Act to include a clause limiting the proportion of capital that could be invested in buildings and mortgages.¹⁹⁴ With this in mind the ‘current ratio’ measure actually overstates the viability of individual branches because it encompasses all types of assets when some of these were highly illiquid. Unfortunately the Registrar’s tables for 1881-1886 do not specify how each branch allocated its capital, making it impossible to calculate more stringent metrics like the quick ratio, which only includes highly liquid assets.

In 1891 JF Wilkinson wrote that the ‘comparatively sound financial condition of the Oddfellows is the result of a long insistence that contributions should be paid by its members; in other words, contributions graduated according to age on entry,

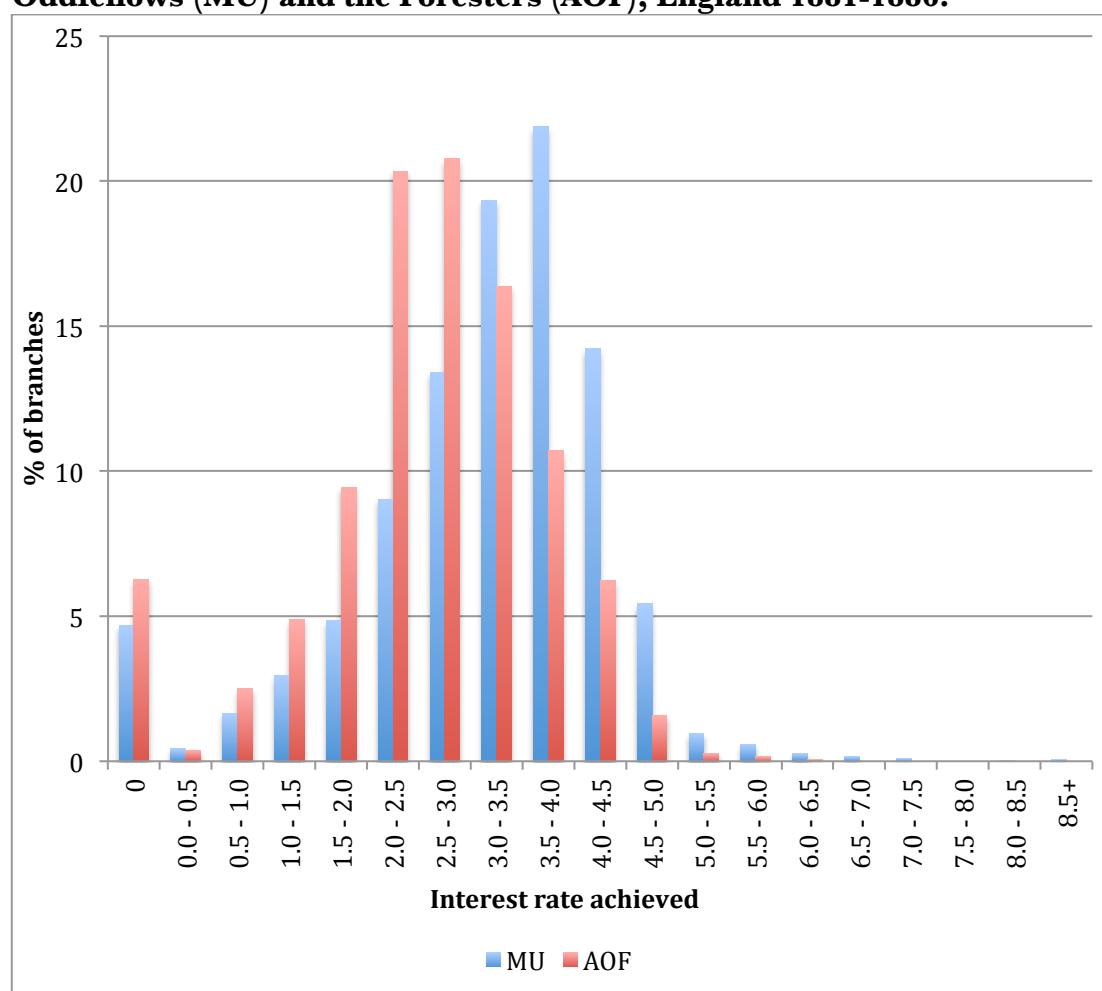
¹⁹² Gosden, *Self-help*, p.93.

¹⁹³ P. Johnson, ‘Class Law in Victorian Britain’, *Past & Present*, 141 (Nov, 1993), p.152.

¹⁹⁴ Carlyon, ‘New Zealand Friendly Societies’, p.164-166.

instead of uniform contributions for all ages whether 18 or 40'.¹⁹⁵ In contrast the Foresters took longer to implement graduated pricing and did not effectively enforce the policy on individual branches. The cumulative impact of a more thorough program of actuarial reform left its mark on the valuation of 1881-1886. Based on a number of metrics and controlling for the sensitivity of these results to interest rate projections, this section has demonstrated that the Oddfellows were in a better financial position than the Foresters. The next section of this chapter focuses on the impact of the adoption of graduated pricing within the Foresters, comparing those branches that accepted the reform with those that did not.

Figure 1.15: Median rate of return on capital achieved by branches of the Oddfellows (MU) and the Foresters (AOF), England 1881-1886.



Note: Sample size of 2909 branches of the Oddfellows and 2832 of the Foresters. Source: See footnote 180 page 58.

¹⁹⁵ Wilkinson, *Mutual Thrift*, pp.248-249.

Table 1.12: Proportion of capital invested in various asset classes by of courts of the Foresters, Britain 1873-1905.

| Year | % of capital in asset class | | | | | |
|------|---|--|-----------------------------------|-----------------------------|---------------------------------|-----------------------------|
| | Savings Banks (trustee and Post Office) | Government Securities in GB or Ireland, with Commissioners for the reduction of national debt and Public Funds | Real securities in GB and Ireland | Land, Offices and Buildings | Otherwise invested and disposed | In branch Treasurers' hands |
| 1873 | 37.87 | 17.01 | | | 1.24 | 6.42 |
| 1874 | 37.65 | 16.27 | | | 0.96 | 5.49 |
| 1875 | 37.37 | 15.41 | | | 0.10 | 5.24 |
| 1876 | 36.19 | 14.51 | | | 1.13 | 5.08 |
| 1877 | 33.22 | 13.75 | | | 1.26 | 5.04 |
| 1878 | 34.29 | 11.35 | | | 0.86 | 4.78 |
| 1879 | 32.65 | 10.34 | | | 0.89 | 4.55 |
| 1880 | 32.42 | 8.81 | | | 5.65 | 4.47 |
| 1881 | 31.75 | 7.75 | 45.37 | 5.29 | 5.66 | 4.18 |
| 1882 | 30.42 | 6.94 | 48.94 | 4.61 | 4.81 | 4.27 |
| 1883 | 28.67 | 6.15 | 51.56 | 4.66 | 4.75 | 4.21 |
| 1884 | 27.64 | 5.12 | 54.79 | 4.47 | 3.88 | 4.09 |
| 1885 | 26.58 | 4.65 | 56.87 | 4.20 | 3.77 | 3.92 |
| 1886 | 25.98 | 4.12 | 58.22 | 4.48 | 3.45 | 3.76 |
| 1887 | 25.59 | 4.02 | 59.47 | 4.06 | 3.25 | 3.60 |
| 1888 | 24.86 | 3.60 | 60.78 | 4.02 | 3.13 | 3.61 |
| 1889 | 25.97 | 3.23 | 58.85 | 3.56 | 4.77 | 3.62 |
| 1890 | 22.74 | 4.52 | 61.17 | 4.97 | 3.11 | 3.49 |
| 1891 | 21.94 | 3.70 | 64.79 | 3.84 | 2.21 | 3.52 |
| 1892 | 21.00 | 3.32 | 66.39 | 2.72 | 3.22 | 3.36 |
| 1893 | 20.07 | 2.88 | 67.10 | 4.03 | 2.91 | 3.01 |
| 1894 | 19.83 | 2.55 | 67.58 | 4.40 | 2.53 | 3.11 |
| 1895 | 19.11 | 3.27 | 67.19 | 3.87 | 3.49 | 3.08 |
| 1896 | 19.47 | 2.74 | 64.37 | 5.51 | 4.98 | 2.93 |
| 1897 | 19.86 | 3.05 | 68.53 | 3.33 | 2.52 | 2.71 |
| 1898 | 20.57 | 3.30 | 63.65 | 4.37 | 5.06 | 3.06 |
| 1899 | 19.82 | 4.06 | 65.65 | 4.92 | 2.68 | 2.87 |
| 1900 | 18.28 | 3.48 | 68.65 | 4.14 | 2.34 | 3.11 |
| 1901 | 16.35 | 5.54 | 69.48 | 4.07 | 1.50 | 3.05 |
| 1902 | 14.01 | 4.92 | 71.63 | 4.17 | 2.30 | 2.96 |
| 1903 | 13.20 | 2.57 | 75.12 | 4.78 | 1.46 | 2.87 |
| 1904 | 10.87 | 3.53 | 75.08 | 6.38 | 1.48 | 2.66 |
| 1905 | 10.38 | 3.00 | 75.53 | 6.24 | 2.26 | 2.58 |

Source: *Directory of the Ancient Order of Foresters Friendly Society for 1881*, pp.345-346 (FHT); *Directory of the Ancient Order of Foresters Friendly Society for 1900*, pp.520-521 (FHT); *Directory of the Ancient Order of Foresters Friendly Society for 1907*, pp.582-587 (FHT).

Table 1.13: Allocation of capital by British friendly societies, 1877, 1899 and 1910.

| Asset class | % in 1877 | % in 1899 | % in 1910 | Change 1877-1899 | Change 1899-1910 |
|--|------------------|------------------|------------------|-------------------------|-------------------------|
| Trustee Savings Banks | 13.65 | 4.87 | 2.11 | -8.78 | -2.76 |
| Post Office Savings Banks | 7.18 | 12.15 | 5.18 | 4.97 | -6.97 |
| Public Funds and Government Securities | 6.08 | 1.61 | 1.48 | -4.47 | -0.13 |
| National Debt Commissioners | 15.07 | 2.09 | 0.64 | -12.98 | -1.45 |
| Land, buildings and mortgages | 30.07 | 60.59 | 73.28 | 30.52 | 12.69 |
| Railway Stock | 3.2 | 0.82 | 0.36 | -2.38 | -0.46 |
| Local securities | 10.85 | 5.49 | 11.79 | -5.36 | 6.30 |
| Building societies | 1.69 | 0.73 | 0.37 | -0.96 | -0.36 |
| Stocks and shares | 3.52 | 0.73 | 0.48 | -2.79 | -0.25 |
| Furniture and effects | 1.21 | 0.09 | 0.08 | -1.12 | -0.01 |
| Investments in the nature of personal security not authorised by the act | 4.09 | 2.81 | 1.63 | -1.28 | -1.18 |
| Cash in hand | 3.29 | 3.01 | 2.59 | -0.28 | -0.42 |

Note: Figures for 1877 from Gosden, *Self-help*, pp.94-95 relate to English friendly societies, both ordinary and affiliated; Figures for 1899 relate to affiliated societies in England and Wales, from *Reports of the Chief Registrar of Friendly Societies for the year ending 31st December 1900*, Part A, Appendix K, [35], (P.P., 1901, LXXII) pp.298-299; Figures for 1910 relate to affiliated societies in Great Britain, *Reports of the chief Registrar of friendly societies for the year ending 31st December 1911*, Part A, Appendix N, (123-I-XII.) (London, 1912-1913), p.8.

Section 4: Graduated vs. uniform contributions in the Foresters

Why did certain Foresters courts resist graduated pricing and how did this affect their long-term performance? The 1881-1886 tables are a useful source for answering these questions but are missing important variables of interest. To overcome this shortcoming I have compiled information from the directories of the Foresters between 1873 and 1907. These annual lists of courts recorded data for every court of the order, and because each court was assigned a unique identification number it is possible to track courts over a number of years. The large volume of data made it necessary to take a sample. Directories were arranged alphabetically by county and district, and within each district by the foundation date of the court. Selecting every third court in the 1873 directory (the first to indicate whether a court was charging graduated contributions) ensured a large and representative sample of 1062 branches. For each court I recorded the number of members, value of funds, number of days sickness over the year, date of foundation, and average age of the

membership. These 1062 courts were then identified in the 1880 and 1907 directories, and the same data was recorded. The 1880 directory was particularly detailed, recording the number of initiations over the year and critically the proportion of members paying graduated contributions. The 1907 directory was selected as a convenient endpoint for two reasons. Firstly, it preceded the passage of the 1911 National Health Insurance Act, which affected friendly societies in a number of ways. Second, to compare the survival rates of branches of the Foresters and the Oddfellows it was necessary to finish on a year with a complete directory for both organisations, and 1907 was such a year.

Why did certain courts delay the adoption of graduated pricing? Those courts that maintained uniform contributions tended to be smaller, older and growing at a slower rate (see **table 1.14** and **1.15**). It is likely that these recalcitrant courts were of the belief that their longevity invalidated the claim that actuarial reform was necessary.¹⁹⁶ Courts maintaining flat contributions also had older members, which was related to maturity of the court and the fact that the first generation of members had aged. These courts were also marginally poorer and had slightly higher rates of morbidity, but the difference was not statistically significant. The 1880 directory indicated whether a court was charging all members, or just new entrants, graduated contributions. Those charging all members graduated contributions were larger, younger, with younger members and lower rates of sickness. These courts were also growing richer (see **table 1.16**).

Table 1.14: Descriptive statistics of courts of the Foresters charging graduated and flat contributions, England 1886.

| Variable | Graduated pricing | | | Flat rate | | |
|-----------------------|-------------------|-----------------------|-----------------------|-----------|-----------------------|-----------------------|
| | Mean | Upper bound 95% CI | Lower bound 95% CI | Mean | Upper bound 95% CI | Lower bound 95% CI |
| Admissions per member | 0.086 | 0.083 | 0.089 | 0.052 | 0.045 | 0.059 |
| Mean age of courts | 29.73 | 29.27 | 30.20 | 38.65 | 37.23 | 40.08 |
| Mean size | 159.19 | 154.28 | 164.10 | 130.21 | 115.93 | 144.48 |

Source: See footnote 180 page 58. Note: CI = Confidence Interval.

¹⁹⁶ Moffrey, *A Century*, p.89.

Table 1.15: Descriptive statistics of courts of the Foresters charging graduated and flat contributions, England 1873.

| 1873 | | | |
|--------------------------|-------------------------|-------------------------|-------------|
| Variable | Flat rate contributions | Graduated contributions | T statistic |
| Members | 95.94 | 119.25 | -4.7421*** |
| Average Age | 33.36 | 31.95 | 4.1595*** |
| Funds Per Member (£) | 3.12 | 3.10 | 0.1085 |
| Days sickness per member | 7.41 | 7.24 | 0.4989 |
| Age of branch | 18.87 | 16.71 | 3.0240*** |
| | n = 657 | n = 390 | |

Note: *** denotes the difference between two categories is significant at the 1% level. Sources: *Directory of the Ancient Order of Foresters Friendly Society for 1873* (FHT).

Table 1.16: Descriptive statistics of courts of the Foresters charging graduated contributions for all or just new members, England 1880.

| 1880 | | | |
|---|--|---|-------------|
| Variable | Graduated contributions for just new members | Graduated contributions for all members | T statistic |
| Members | 136.99 | 148.34 | -1.5261 |
| Average Age | 35.51 | 32.61 | 7.856*** |
| Funds Per Member (£) | 4.66 | 4.39 | 1.0816 |
| Days sickness per member | 9.55 | 8.00 | 3.0768*** |
| Age of branch | 26.86 | 21.19 | 6.9476*** |
| Initiations per existing member | 0.0636 | 0.0895 | -6.6685*** |
| Percentage Increase in members, 1873-1880 | 38.22 | 59.93 | -3.3199*** |
| Percentage Increase in funds, 1873-1880 | 77.26 | 116.86 | -3.6616*** |
| | n = 659 | n = 229 | |

Sources: *Directory of the Ancient Order of Foresters Friendly Society for 1880* (FHT). Note: *** denotes the difference between two categories is significant at the 1% level.

In summary, reforming courts seem to have been more dynamic – younger, larger, richer, growing at a faster rate and with a younger membership base. In the Oddfellows it was the older and more independent minded lodges in Yorkshire and

Table 1.17: Geographical distribution of Foresters courts, England 1886.

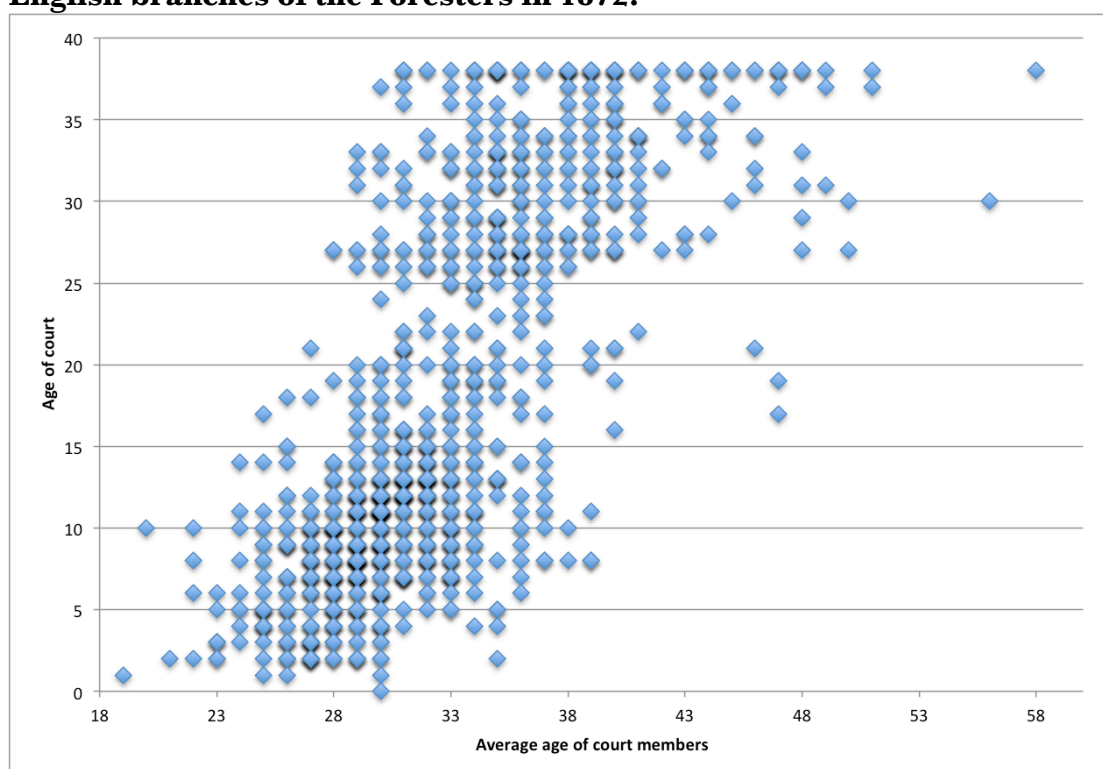
| County | Courts | Charging flat rate | % of all courts | % of courts charging flat rate | Over/ under rep. |
|-------------------|---------------|---------------------------|------------------------|---------------------------------------|-------------------------|
| Bedfordshire | 37 | 6 | 1.31 | 2.13 | 0.81 |
| Berkshire | 18 | 0 | 0.64 | 0.00 | -0.64 |
| Buckinghamshire | 27 | 0 | 0.96 | 0.00 | -0.96 |
| Cambridgeshire | 15 | 0 | 0.53 | 0.00 | -0.53 |
| Cheshire | 114 | 29 | 4.05 | 10.28 | 6.24 |
| Cornwall* | 0 | 0 | 0.00 | 0.00 | 0.00 |
| Cumberland* | 0 | 0 | 0.00 | 0.00 | 0.00 |
| Derbyshire | 42 | 10 | 1.49 | 3.55 | 2.06 |
| Devonshire | 91 | 4 | 3.23 | 1.42 | -1.81 |
| Dorsetshire | 21 | 0 | 0.75 | 0.00 | -0.75 |
| Durham | 62 | 4 | 2.20 | 1.42 | -0.78 |
| Essex | 8 | 0 | 0.28 | 0.00 | -0.28 |
| Gloucestershire | 109 | 7 | 3.87 | 2.48 | -1.39 |
| Hampshire | 146 | 2 | 5.18 | 0.71 | -4.47 |
| Herefordshire | 27 | 0 | 0.96 | 0.00 | -0.96 |
| Hertfordshire | 15 | 0 | 0.53 | 0.00 | -0.53 |
| Huntingdonshire | 2 | 2 | 0.07 | 0.71 | 0.64 |
| Isl. of Alderney* | 0 | 0 | 0.00 | 0.00 | 0.00 |
| Isl. Guernsey* | 0 | 0 | 0.00 | 0.00 | 0.00 |
| Isl. of Jersey* | 0 | 0 | 0.00 | 0.00 | 0.00 |
| Isl. of Man* | 0 | 0 | 0.00 | 0.00 | 0.00 |
| Kent | 101 | 5 | 3.59 | 1.77 | -1.81 |
| Lancashire | 211 | 36 | 7.49 | 12.77 | 5.28 |
| Leicestershire* | 0 | 0 | 0.00 | 0.00 | 0.00 |
| Lincolnshire | 39 | 14 | 1.38 | 4.96 | 3.58 |
| Middlesex | 606 | 28 | 21.51 | 9.93 | -11.58 |
| Monmouthshire | 44 | 21 | 1.56 | 7.45 | 5.88 |
| Norfolk | 89 | 15 | 3.16 | 5.32 | 2.16 |
| Northamptonshire | 56 | 13 | 1.99 | 4.61 | 2.62 |
| Northumberland | 63 | 1 | 2.24 | 0.35 | -1.88 |
| Nottinghamshire | 40 | 8 | 1.42 | 2.84 | 1.42 |
| Oxfordshire | 9 | 0 | 0.32 | 0.00 | -0.32 |
| Rutlandshire* | 0 | 0 | 0.00 | 0.00 | 0.00 |
| Shropshire | 34 | 4 | 1.21 | 1.42 | 0.21 |
| Somersetshire | 31 | 1 | 1.10 | 0.35 | -0.75 |
| Staffordshire | 155 | 9 | 5.50 | 3.19 | -2.31 |
| Suffolk | 45 | 0 | 1.60 | 0.00 | -1.60 |
| Surrey | 74 | 1 | 2.63 | 0.35 | -2.27 |
| Sussex | 73 | 3 | 2.59 | 1.06 | -1.53 |
| Warwickshire | 81 | 2 | 2.88 | 0.71 | -2.17 |
| Westmoreland | 2 | 0 | 0.07 | 0.00 | -0.07 |
| Wiltshire | 34 | 1 | 1.21 | 0.35 | -0.85 |
| Worcestershire | 100 | 1 | 3.55 | 0.35 | -3.20 |
| Yorkshire | 196 | 55 | 6.96 | 19.50 | 12.55 |

Sources: See footnote 180 page 58. Note: * denotes missing returns missing.

Lancashire that vehemently resisted the reforms of the AMC's of 1845 and 1853.¹⁹⁷ Similarly in the Foresters courts charging uniform contributions were concentrated in the old heartland regions of the order, in particular the counties of Cheshire, Lancashire, Yorkshire and Monmouthshire (see **table 1.17**). In contrast the counties of Middlesex and Hampshire, where the Foresters had expanded at a later date, were underrepresented.

It is difficult to separate what led branches to adopt graduated pricing from how graduated pricing affected the development of branches when using cross-sectional data. One explanation is that reforming branches outperformed non-reformers because they were able to attract younger members – consistent with the fact they had a lower average age (see **figure 1.16**). If an individual was considering joining a court charging a uniform rate there was an incentive to delay joining until they reached an age when they would need sickness benefits.¹⁹⁸

Figure 1.16: Scatter plot of age of court and average age of members, English branches of the Foresters in 1872.



Sources: *Directory of the Ancient Order of Foresters Friendly Society for 1880* (FHT).

¹⁹⁷ Gosden, *Self-help*, pp.54-55.

¹⁹⁸ Gottlieb, 'Asymmetric information', pp.272, 284.

An alternative explanation is that young individuals had a preference for fairness, and accepted the logic of actuarial reformers like Charles Hardwick of the Oddfellows that it was unfair that a member joining at 18 should pay the same as a member joining at 40.¹⁹⁹ Without individual level information we will never know the precise reasons why individuals signed up. It is also likely that courts with graduated contributions had younger members because they were founded at a later date, and so the founding generation were not as old. The average age of the members and the age of the court were strongly correlated, with a Pearson's correlation of 0.726 (significant at the 1% level). This is consistent with the explanation favoured by contemporaries – that older courts, with older members, were more stuck in their ways and were sceptical of the necessity of reform. Alternatively younger courts, with younger members, might have been convinced of the need to adopt actuarial pricing to ensure the long-term viability of the court.

How did graduated pricing affect the long-term performance of branches? Opposition to actuarial reform was based on a number of objections – a suspicion of outsiders and experts, hostility to statistical analysis, the belief that actuaries had a poor understanding of how friendly societies actually functioned, and a disbelief that societies with such large capital reserves could possibly fail.²⁰⁰ It was also rooted in the argument that societies would suffer materially. Competition for members discouraged individual societies from increasing contributions relative to benefits. Societies charging flat contributions may have been able to attract and retain more members because they were cheaper. In 1877 at the other side of the world the Loyal Avon Lodge of Christchurch, New Zealand, complained that twenty-five 'would be members' had decided to join other branches in the area because their weekly contributions were uniform and consequently lower.²⁰¹ Secondly, uniform pricing was more egalitarian and probably led to a stronger culture of mutualism within a society. Consequently these societies might have found it easier to raise levies. It is also plausible that members, out of a sense of brotherhood, were less likely to claim sickness benefits. Both of these effects would have had a positive impact on a society's

¹⁹⁹ Moffrey, *A Century*, p.192-3; Ismay, 'Between Providence', pp.137-140; this is consistent with the micro-economic models presented in E. Fehr and U. Fischbacher, 'Why social preferences matter – The impact of non-selfish motives on competition, cooperation and incentives', *The Economic Journal*, 112, 478, (2002), pp.C1-C33.

²⁰⁰ See Cordery, *British Friendly Societies*, p.125.

²⁰¹ Carlyon, 'New Zealand Friendly Societies', p.171.

funds. A stronger culture of mutualism may also have lowered management costs and meant that the branch's funds were more diligently invested.

Using the directories of the Foresters we can explore the long-term development of courts with different pricing strategies. Examining the impact of early actuarial reform on outcomes in 1907 helps minimise the problems of endogeneity encountered when relying on cross-sectional data. In the absence of a viable instrument or natural experiment it is impossible to overcome this problem entirely. **Table 1.18** lists descriptive statistics for a number of variables in 1907. The first notable pattern is that courts that adopted graduated contributions in 1873 and 1880 were larger and richer in 1907. Contra the argument that graduated contributions incentivised joining at a younger age, reforming courts had marginally older members in 1907. They also experienced a more pronounced increase in average age between 1880 and 1907. Within the sub-category of courts that charged graduated contributions in some form in 1880, those that charged all members graduated fees were richer in 1907 and had increased the size of their funds by a greater amount in the intervening 27 years.

Interpreting these descriptive statistics is problematic. Firstly there is an issue of endogeneity. As discussed, in 1873 and 1880 reforming courts had more members and more capital than non-reformers, so their size and wealth in 1907 could simply be a consequence of the long-term persistence of these characteristics. Secondly there is a problem of selection bias. As will be demonstrated later in this chapter, courts that maintained uniform contributions were more prone to closure. Those non-reforming courts that survived through to 1907 may have only been able to do so because they had gone out of their way to ensure a constant influx of young members, which would explain why these courts had slightly younger members in 1907. Another potential explanation is that once a court adopted graduated pricing it became less concerned about admitting older members.

Tables 1.19 present the results from a set of ordinary least squared (OLS) regressions that measure the impact of a number of variables on the size of courts in 1907. The dependent variable is the number of members of the court. In the second column the size of the court in 1907 has been converted into logarithms. The main

Table 1.18: Descriptive statistics of reforming and non-reforming courts of the Foresters, England 1907.

(i) Uniform or graduated contributions in 1873.

| Variable in 1907 | Uniform contributions in 1873 | Graduated contributions in 1873 | T test |
|-------------------------|--------------------------------------|--|---------------|
| Members | 176.88 | 203.18 | -2.2321** |
| Average Age | 42.48 | 43.29 | -1.7144* |
| Funds per member (in £) | 10.27 | 11.39 | -2.0992** |

(ii) Uniform or graduated contributions in 1880.

| Variable in 1907 | Uniform contributions in 1880 | Graduated contributions (both for new and existing) in 1880 | T test |
|--|--------------------------------------|--|---------------|
| Members | 150.53 | 190.66 | -1.673* |
| Average Age of members | 40.97 | 42.93 | -2.0033** |
| Funds per member (in £) | 9.21 | 10.85 | -1.5203 |
| Percentage Increase in members 1880-1907 | 16.75 | 18.89 | -1.1016 |
| Change in average age 1880-1907 | 5.82 | 8.95 | -3.1921*** |

(iii) Full or piecemeal actuarial reform in 1880.

| Variable in 1907 | Graduated contributions for new members in 1880 | Graduated contributions for all members in 1880 | T test |
|---|--|--|---------------|
| Members | 186.56 | 201.04 | -1.063 |
| Funds per member (in £) | 10.55 | 11.61 | -1.7240* |
| Percentage increase in funds per member | 168.19 | 218.52 | -1.9852** |

Note: Coefficients with *t* statistics in parenthesis. * denotes significant at the 10% level. ** denotes significant at the 5% level, *** denotes significant at the 1% level. *Source:* *Directory of the Ancient Order of Foresters Friendly Society for 1873* (FHT); *Directory of the Ancient Order of Foresters Friendly Society for 1880* (FHT); *Directory of the Ancient Order of Foresters Friendly Society for 1907* (FHT).

independent variable of interest is 'Any Grad in 1880', a dummy indicating whether the court had adopted graduated pricing in 1880. The other independent variables control for factors associated with the size of the lodge. Older lodges tended to recruit less; initiations per member and the age of the court were strongly negatively correlated in the 1880 directory and the 1886 returns to the Registrar, with Pearson's correlation coefficients of -0.4023 and -0.402 respectively.²⁰² This may have been because older courts had already reached a critical mass or because they had entered into a decline phase as a consequence of their older age structure. The variable 'average age 1907' controls for the latter relationship. The variable 'Juvenile 1907' is a dummy indicating whether the court had a juvenile court attached to it. Juvenile courts were for individuals too young to join an adult court, and were established to help ensure a steady influx of young members. If the juvenile court system worked as it was intended too, then we would expect courts with this facility to have grown larger. The Oddfellows and the Foresters added new members through recruitment; an individual looking to join needed a proposer and a seconder. Therefore the size of the court in one time period had a long run persistent effect on the number of members. The variable 'Size in 1880' controls for the correlation of lodge size in 1880 and 1907. The variables 'Initiations per member in 1880' and 'Funds per member in 1880' gauge other long-term persistent effects. A higher initiation rate in 1880 meant that there would have been more members in the court able to recruit more from their own social networks, affecting the size of the lodge in 1907. Finally wealthy courts might have been able to attract more members.

The results of the regressions show that the adoption of graduated contributions in 1880 was associated with larger lodge size in 1907. The coefficient is both economically and statistically significant; the 95% confidence intervals indicate that reform was associated with an increase in members of between 9.3% and 35%. The adjusted r-squared is large in both models, with 70% and 73% of the variation in the data explained by the independent variables included. The signs on the control variables are as expected. The age of the court and the average age of members were negatively correlated with the number of members in 1907. Courts with a juvenile branch attached to them were able to grow larger and unsurprisingly the size of the

²⁰² Both correlations are significant at the 1% level.

court and the rate of initiation in 1880 had a long-term positive impact. Court wealth in 1880 was also positively associated with size in 1907.

Table 1.19: Impact of graduated pricing on the size of courts of the Foresters in England between 1880 and 1907.

| | Model | |
|------------------------------|--|--|
| | 1 | 2 |
| Sample | Courts of AOF in sample in existence in 1907 | Courts of AOF in sample in existence in 1907 |
| Dependent variable | Number of members in 1907 | Log of number of members in 1907 |
| Model | OLS | OLS |
| Coefficients | Un-standardised | Un-standardised |
| Robust to Heteroskedasticity | Yes | Yes |
| N | 767 | 767 |
| Constant | 452.730*** (14.20) | 6.799*** (42.68) |
| 'Any Grad in 1880' | 32.071*** (2.39) | 0.225*** (3.36) |
| Age of court | -2.087*** (-5.93) | -0.0084*** (-4.82) |
| Juvenile 1907 | 26.846*** (3.75) | 0.203*** (5.68) |
| Members 1880 | 1.202*** (35.27) | 0.0054*** (32.03) |
| Average Age 1907 | -9.608*** (-17.78) | -0.0651*** (-24.09) |
| Funds per member 1880 | 3.844*** (3.55) | 0.0295*** (5.45) |
| Initiations per member 1880 | 191.823*** (2.73) | 1.115*** (3.17) |
| Adjusted R ² | 0.7063 | 0.726 |
| F | 264.15*** | 292.27*** |

Coefficients with *t* statistics in parenthesis. * denotes significant at the 10% level. ** denotes significant at the 5% level, *** denotes significant at the 1% level. *Source:* See source note for table 1.18.

One of the core arguments made against the introduction of graduated contributions was that it would make it more difficult for branches to attract new members. There is no evidence to support this hypothesis in the 1886 returns. Reformed courts added 8 members for every 100 existing members, whereas those maintaining uniform contributions added just over 5. Using data from the directories of the Foresters gives the same result. In 1880 courts charging uniform contributions

had an admission rate of 0.0545 individuals per existing member, compared with 0.0702 in the case of reformed courts.²⁰³ From the perspective of potential members it made no immediate difference whether a court was charging all or just new members graduated contributions – either way they would be paying under graduated scales. It is therefore interesting that those courts that adopted graduated contributions for all members had higher initiation rates than those only charging new admissions graduated fees; 0.0895 per existing member as opposed to 0.0636.²⁰⁴ Moreover these courts grew at a faster rate between 1873 and 1880 (see **table 1.16**). It is plausible that individuals were basing their decisions about which societies to join based on quality – on the perceived viability of the branch – and saw graduated contributions for all members as a signal of this.

As Victorian actuaries repeatedly emphasised, focusing on the size and wealth of a society did not take into account the age of the members, their likelihood of claiming, nor the contributions they would make in the future.²⁰⁵ It was for these reasons that they proposed using the valuation as the main measure of the financial performance of societies. The 1881-1886 valuation is therefore indispensable, despite the limitations of using cross-sectional data. The following analysis is once again restricted to the Foresters given that only 1.17% of branches of the Oddfellows were still charging uniform contributions in 1886, as opposed to 10.34% in the Foresters.

Comparing the current ratio and the surplus/deficiency per member of the two categories of branch shows that non-reforming branches were in a worse financial position. The average current ratio of courts charging graduated contributions was 86.16%, as opposed to 78.29% for those maintaining uniform fees (see **table 1.20**).²⁰⁶ The distribution of results for the two categories of court was also markedly different (see **figure 1.17**); 52.0% of non-reforming courts had a current ratio of less than 80%. In contrast only 34.6% of courts charging graduated contributions had a current ratio below 80%. Translating these figures into per capita terms, courts with uniform fees had an average deficiency of £6.16 per member in contrast to £4.19 in the case of those charging graduated prices.

²⁰³ T-test statistic of -2.745, significant at the 5% level.

²⁰⁴ T-test statistic of 3.0768, significant at the 1% level.

²⁰⁵ Wilkinson, *Mutual Thrift*, pp.231-240.

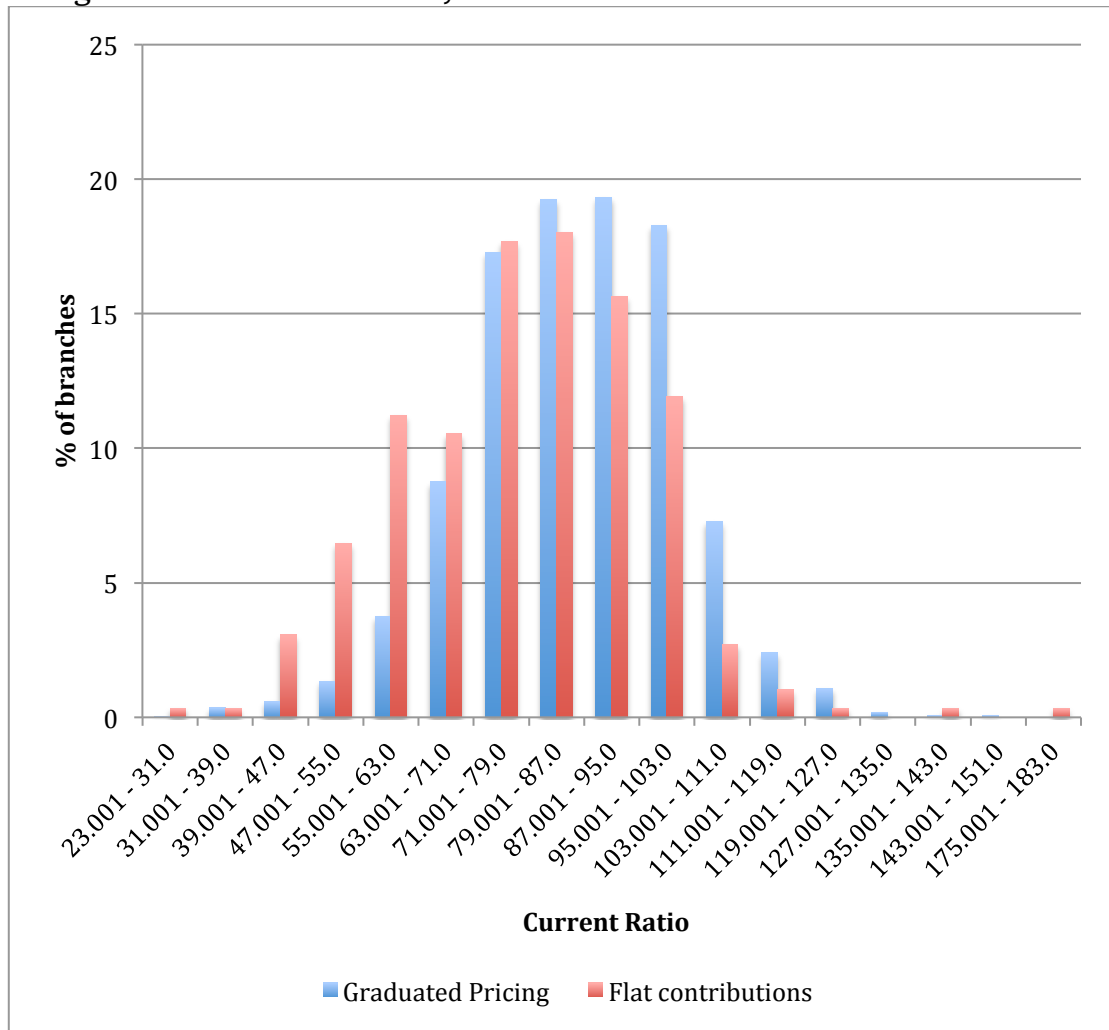
²⁰⁶ T-test statistic of 8.088, significant at the 1% level.

Table 1.20: Descriptive statistics of courts of the Foresters charging uniform and graduated contributions, England 1886.

| Variable | Graduated Contributions | Flat Contributions | T test |
|---|-------------------------|--------------------|------------------------|
| Mean Current Ratio | 86.16% | 78.29% | 7.22*** ^a |
| Mean Surplus/deficiency per member (in £) | -4.19 | -6.16 | 5.16*** |
| Mean Interest achieved | 2.61 | 2.67 | -1.044 |
| Mean Admissions per member | 0.0859 | 0.0504 | 9.0716*** ^b |

Sig: * denotes significant at the 10% level. ** denotes significant at the 5% level, *** denotes significant at the 1% level. ^a Bartlett's test for equal variances: $\chi^2 = 19.24$ ($p = 0.000$). ^b Bartlett's test for equal variances: $\chi^2 = 22.83$ ($p = 0.000$). *Source:* See footnote 180 page 58.

Figure 1.17: Current ratio of English courts of Foresters charging flat and graduated contributions, 1881-1886.



Source: See footnote 180 page 58.

Table 1.21 presents the results for an ordinary least squared regression that tests the impact of charging uniform contributions on the 1881-1886 valuation results. The dependent variable is the current ratio of the branch – a measure of the financial performance of a society that encompasses all assets and liabilities, both realised and potential. As in the above models, branch age, size, rate of admission and rate of return on capital have been included as controls. In the second model county dummies have also been added to control for regional characteristics such as the economic and social structure of the county. These dummies also control for how much of a foothold each organisation had in a region. Branches added members through recruitment, meaning there were increasing returns to an early expansion into a county.²⁰⁷

The results replicate those in the above regression. The coefficients on the controls have the same signs and are of a similar magnitude. All of the variables remain significant when county dummies are included with the exception of branch size. Moreover in both models the 95% confidence intervals do not cross zero, again with the exception of lodge size in the second specification. Branch age was associated with a moderate reduction in the current ratio. There was a moderate benefit to an increase in size, but the magnitude of the effect was economically insignificant. Predictably an increase in the interest rate achieved over the period 1881-1886 improved the valuation result, largely because this would have increased a branches realised assets. The initiation rate also had a large impact on the current ratio. This is harder to interpret because there could be some backward causation (richer branches were able to attract more members). It is also plausible that although there weren't significant economies of scale, branches that were able to recruit at a higher rate could improve their asset-liability ratio because new members tended to be young, (i.e. the present value of their current liabilities was smaller than the present value of the contributions they would make). Although if we assume that branches focussed on recruiting the younger then a higher admission rate could reflect higher secession rates, given that younger members were also more likely to secede (see above). Without information on the age of new entrants these are merely suggestions. The

²⁰⁷ W.B. Arthur, *Increasing Returns and Path Dependence in the Economy* (Ann Arbor, 1994), p.1; W.B. Arthur, 'Increasing Returns and the New World of Business', *Harvard Business Review*, (July-August, 1996), 101-109.

coefficients on the variables ‘MUIOOF’ and ‘Flat’ confirm that there were significant financial benefits to actuarial reform. Controlling for other variables, branches of the Oddfellows outperformed branches of the Foresters by 11.81% on the current ratio measure. Conversely charging members uniform contributions was associated with a 4.19% reduction in the current ratio.

Table 1.21: Impact of graduated pricing on the current ratio of branches of the Oddfellows and Foresters, England 1881-1886.

| | Model | |
|------------------------------|--|--|
| | 1 | 2 |
| Sample | Branches of the Foresters and Oddfellows | Branches of the Foresters and Oddfellows |
| Dependent variable | Current ratio (in %) | Current ratio (in %) |
| Model | OLS | OLS |
| Coefficients | Un-standardised | Un-standardised |
| Robust to Heteroskedasticity | Yes | Yes |
| N | 5741 | 5741 |
| Constant | 83.923*** (101.78) | 68.181*** (4.85) |
| Uniform contributions | -4.933*** (-4.88) | -3.126*** (-3.66) |
| MUIOOF | 11.395*** (28.28) | 11.810*** (27.12) |
| Age of court | -0.399*** (-22.20) | -0.3384*** (-19.11) |
| Size | 0.00535*** (3.18) | 0.000331*** (0.19) |
| Initiations per member | 25.810*** (6.58) | 25.343*** (9.16) |
| Interest achieved | 4.292*** (17.85) | 4.193*** (21.27) |
| County dummies | No | Yes |
| Adjusted R ² | 0.235 | 0.284 |
| F | 271.82*** | 47.62*** |

Coefficients with *t* statistics in parenthesis. * denotes significant at the 10% level. ** denotes significant at the 5% level, *** denotes significant at the 1% level. *Source:* See footnote 180 page 58.

Section 5: Did actuarial reform reduce the branch collapse rate?

Valuations were used to measure the long-term viability of individual friendly societies. Yet as a number of historians have argued, they were based on making

hypothetical projections into the future. Did actuarial reform have an impact on the actual number of societies that had to close over the nineteenth century?

In 1910 the actuary Alfred Watson examined the failure rate of local level independent friendly societies to ascertain the extent to which they had been superseded by the large affiliated orders. Watson took a random sample of 1000 of these societies on the Registrar's books in 1880 and then identified whether they were still in operation in 1905. Only 450 societies were still in existence.²⁰⁸ In 1892 Wilkinson came to an even more pessimistic conclusion after comparing the Registrars' records with local level records, and suggested as many as four-fifths of these societies were dead.²⁰⁹ Using the directories of the Foresters and the Oddfellows it is possible to replicate Watson's methodology.²¹⁰ Following Watson, a branch was considered to have closed if it was not on the books in 1907. This assumption is problematic because a number of branches broke away from both organisations over the period and formed independent societies. In theory this might result in an overestimation of the failure rate. In practice this is not a substantial issue when focusing on the period between 1880 and 1907. The Oddfellows were more prone to schism than the Foresters, on account of its more centralised and autocratic form of government. Yet the major schisms occurred in the 1840s and 1850s.²¹¹ Between 1880 and 1907 the Oddfellows were much more unified. In the Foresters 52 branches were suspended in 1885 but were subsequently readmitted to the order.²¹² This was the only significant division within the Foresters between 1880 and 1907. Another issue is that the closure of a branch might not have meant that the members were ineligible for benefits. The directories of both orders regularly recorded the number of branches that had closed as well as the reason, although unfortunately the early directories do not go into much detail. The most commonly cited reason was that the members were being amalgamated with other branches.²¹³ It was also common for

²⁰⁸ Watson, 'Some points', p.192

²⁰⁹ Wilkinson, 'Friendly Society', p.722.

²¹⁰ The 1879 directory of the Oddfellows was used because the 1880 directory was unavailable in the Oddfellows archive.

²¹¹ Gosden, *Self-help*, pp.44, 55.

²¹² *Ibid.*, p.58.

²¹³ Between 1850 and 1879, in a sample of 472 lodges of the Oddfellows, 41.9% closed through amalgamation, 36% through division, 2% through lack of funds and in 20% of cases no reason was given. Data taken from the directories of the Oddfellows, see available editions of *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity*, between 1850-1879 (OOA), see footnote 39 page 8.

the funds to be divided and the members admitted to another branch, or admitted onto a district or central fund. In all these instances we can still consider the branch to have ‘failed’ given that the participants and officials believed that there was a more effective way of providing for the members that involved formally closing that branch. Indeed this was a deliberate policy. A special report on struggling courts in the 1886 Quarterly Report of the Foresters made it clear that amalgamation was the preferable policy in the case of courts that had large deficiencies.²¹⁴

Table 1.22 demonstrates that both organisations were more stable than local and independent societies, with far lower rates of collapse. These results seem to vindicate the legitimacy of the valuation methodology. **Figure 1.18** is based the regular lists of branch closures at the end of the directories, and uses the number of courts in operation at the start of each year as the denominator. Branches of the Foresters were more fragile than those of the Oddfellows. It is also noticeable that in both organisations the collapse rate fell over the period. The increase in closures in the Foresters after 1911 can be attributed to the impact of the National Health insurance legislation, which led to a conglomeration of societies, and the effects of the war (see chapter 5).

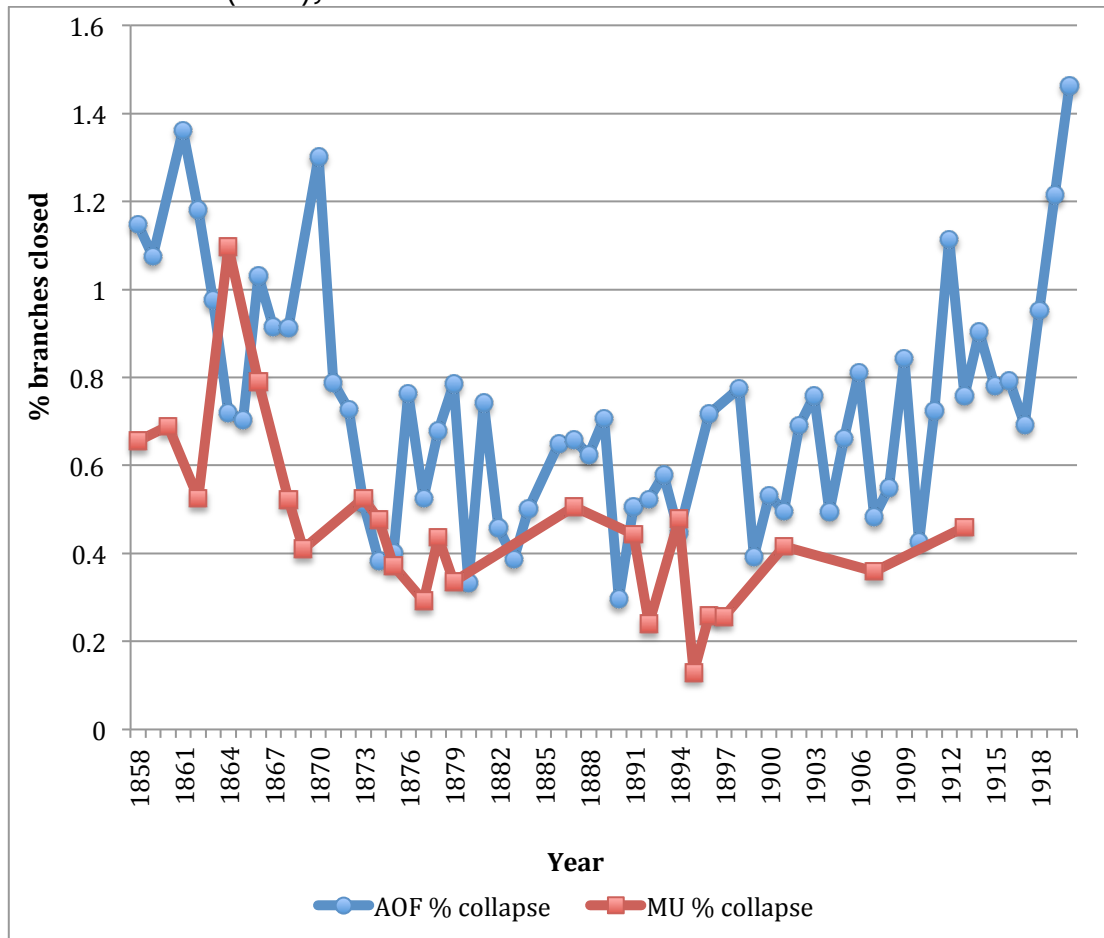
Table 1.22: Collapse rate of English branches of the Oddfellows and Foresters, 1879-1907.

| | Oddfellows (1879-1907) | Foresters (1880-1907) |
|----------------------|-----------------------------------|----------------------------------|
| In operation in 1880 | 1006 | 986 |
| # closed by 1907 | 204 | 273 |
| % Collapse | 20.20 | 27.69 |
| % Collapse per annum | 0.72 | 1.03 |

Source: Directory of the Ancient Order of Foresters Friendly Society for 1880 (FHT); Directory of the Ancient Order of Foresters Friendly Society for 1907 (FHT); A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1879 (Manchester, 1879) (OOA); A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1907 (Manchester, 1907) (OOA).

²¹⁴ *First Quarterly Report of the 53rd Executive Council, Glasgow, October 1886, Ancient Order of Foresters, Friendly Society*, pp.46-51 (Reports Section, FHT).

Figure 1.18: Collapse rate of English branches of the Oddfellows (MU) and Foresters (AOF), 1858-1919.



Source: Available editions of *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity*, between 1858-1914 (OOA), see footnote 39 page 8; successive editions of the *Directory of the Ancient Order of Foresters Friendly Society*, for 1858-1919 (FHT).

The greater resilience of the branches of the Oddfellows could be a consequence of selection bias. The early directories of both orders are incomplete and do not give much information why branches closed. However it seems that before 1858 the Oddfellows actually had a higher rate of closure (see **table 1.23**) than the Foresters. It is plausible that this earlier ‘shake out’ meant that a large number of unstable branches had already closed, leaving behind only the better-governed branches.

Table 1.23: Early collapse rate of English branches of the Foresters and Oddfellows, 1834-1849.

| Organisation | Period | Closed 'for want of funds and other causes' | Number of courts at start of period | Collapse rate | <i>Collapse rate per annum</i> |
|---------------------|---------------|--|--|--------------------------|---|
| Foresters | 1834-1846 | 565 | 1681 | 33.7% | 2.81% |
| Foresters | 1846-1849 | 83 | 1592 | 5.21% | 1.74% |
| Oddfellows | 1841 | 61 | 2682 | - | 2.27% |
| Oddfellows | 1842 | 68 | 3056 | - | 2.25% |
| Oddfellows | 1843 | 225 | 3368 | - | 6.68% |
| Oddfellows | 1844 | 164 | 3690 | - | 4.44% |

*Source: A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1841 (Oldham, 1841), p.185; 1842, p.216; 1844, p.292 (OOA); Gosden *Self-help*, p.54, based on the *MUQR*, July 1844; *Directory of the Ancient Order of Foresters Friendly Society for 1846*, pp.98-99, and 1849, p.97 (FHT).*

What were the characteristics of branches that collapsed between 1880 and 1907? Using the data extracted from the directories of the Foresters (discussed above) **table 1.24** splits courts into those that closed and those that remained operational. The figures in the cells are the mean of the relevant variables. All of the differences are highly significant. Those branches that survived were larger, richer, less morbid, and younger, with younger members and growing at a faster rate. These results are somewhat predictable. More dynamic courts were in a better position in 1879 and were more likely to survive to 1907.

What impact did pricing strategy have on the probability of court closure? Using the same data from the Foresters directories **tables 1.25** and **1.26** show that courts that adopted graduated contributions in 1873 and 1880 were more likely to remain operational in 1907. Those courts only charging new members graduated contributions were also more likely to close than those that had fully reformed.

Table 1.24: Descriptive statistics of courts of the Foresters, England 1873-1880.

| Mean of Variable | Branches that persist between 1880 and 1907 | Branches that collapse between 1880 and 1907 | T-test |
|----------------------------------|--|---|---------------|
| Members in 1880 | 150.03 | 89.50 | 8.251*** |
| Funds per member in 1880 (in £) | £4.84 | £3.58 | 5.127*** |
| Average age in 1880 | 34.03 | 38.68 | -12.31*** |
| Sick days per member in 1880 | 8.29 | 10.68 | -4.633*** |
| Initiations per member | 0.0736 | 0.0512 | 5.6354*** |
| Age of court | 24.45 | 30.95 | -7.7658*** |
| % Increase in members 1873-1880 | 50.91 | 10.65 | 6.2802*** |
| % Increase in wealth 1873-1880 | 94.05 | 53.95 | 3.6916*** |
| Change in average age of members | 2.22 | 2.97 | -2.762*** |

Note: *** denotes significant at the 1% level. *Source:* See source note for table 1.18.

Table 1.25: Proportion of English courts closing in 1907 categorised by pricing strategy in 1880.

| | Uniform in 1880 | Graduated for New in 1880 | Graduated for all in 1880 |
|--------------------|------------------------|----------------------------------|----------------------------------|
| Courts in 1880 | 90 | 667 | 229 |
| Collapsing in 1907 | 41 | 148 | 24 |
| % | 45.55 | 22.18 | 10.48 |

Source: See source note for table 1.18.

Table 1.26: Proportion of English courts closing in 1907 categorised by pricing strategy in 1873.

| | Uniform in 1873 | Graduated in 1873 |
|--------------------|------------------------|--------------------------|
| Courts in 1880 | 606 | 380 |
| Collapsing in 1907 | 162 | 51 |
| % | 26.73 | 13.42 |

Source: See source note for table 1.18.

Table 1.27 presents results for two logit regressions where the dependent variable is a dummy indicating whether the court was still in operation in 1907. The main independent variables of interest are ‘Graduated contributions 1880’ and ‘Graduated contributions 1873’, which are also dummies for whether the court had abandoned uniform pricing in the relevant year. We would expect an increase in the

size, wealth and initiation rate of a court in 1880 to reduce the probability of closure. On the one hand older courts were well established, meaning they might have been less prone to failure. Yet as discussed, older courts had older members and were in a decline phase in the court life cycle. An increase in the average age of members in 1880 should have increased the probability of closure. For similar reasons courts with a juvenile branch attached were probably more durable. The final two variables measure the percentage change in the number of members and the funds per member between 1873 and 1880. In both cases we would expect courts that were growing in size and wealth to have been more resilient.

Both regressions are highly significant and 84% and 84.3% of cases have been correctly classified. The signs on the coefficients are as expected and most variables are highly significant. These models verify what contemporaries observed. Older courts with older members were more likely to close. Size, wealth, a higher initiation rate, and attachment to a juvenile branch reduced the probability of collapse. The largest coefficient is on the variable 'initiations per member 1880'. This suggests that even after a period of actuarial reform the courts of the Foresters were surviving on the backs of new members; those that were unable to attract new members, and keep their age structure down, were more likely to close. Adopting graduated pricing reduced a court's probability of collapse by between 8% and 9%. In both regressions the 95% confidence intervals on both graduated contribution variables do not cross the zero bound. When added to all of the evidence presented above these regressions demonstrate that the move away from uniform contributions improved the long-term financial viability of individual friendly societies.

Table 1.27: Impact of the introduction of graduated contributions on the probability of a court collapsing, English Foresters, 1873-1907.

| | Model | |
|--|---------------------------|---------------------------|
| | 1 | 2 |
| Sample | Branches of the Foresters | Branches of the Foresters |
| Dependent variable | Does court exist in 1907 | Does court exist in 1907 |
| Model | Logit | Logit |
| Coefficients | Mean of marginal effects | Mean of marginal effects |
| N | 981 | 981 |
| Constant | -2.402*** (-2.52) | -3.123*** (-3.44) |
| Graduated contributions 1880 | -0.0977*** (-2.96) | N/a |
| Graduated contributions 1873 | N/a | -0.0815*** (-3.31) |
| Members 1880 | -0.00113*** (-6.21) | -0.0011** (-6.01) |
| Lodge Age 1880 | 0.00302** (2.31) | 0.0028** (2.17) |
| Average age of members 1880 | 0.0118*** (3.96) | 0.0125*** (4.26) |
| Funds Per Member 1880 | -0.0243*** (-6.06) | -0.0239*** (-6.12) |
| Initiations per member 1880 | -0.186 (-0.75) | -0.188*** (-0.76) |
| Juvenile 1880 | -0.0531* (-1.61) | -0.0488 (-1.47) |
| Increase in members 1873-1880 | -0.000491** (-1.98) | -0.000524*** (-2.08) |
| Increase in Funds Per member 1873-1880 | -0.000259** (-2.21) | -0.000247** (-2.12) |
| Adjusted R ² | 0.2535 | 0.2562 |
| F | 258.30*** | 261.06*** |
| % correctly classified | 84.0% | 84.3% |

Note: Coefficients with z statistics in parenthesis. * denotes significant at the 10% level. ** denotes significant at the 5% level, *** denotes significant at the 1% level. *Source:* See source note for table 1.18.

Conclusion

In the debate over the economic effectiveness of the friendly society model there are optimists and pessimists. Pessimists have generally argued that the friendly societies were fundamentally flawed. In this narrative these organisations are presented as a temporary and inadequate response to the problem of ill health. Consequently a superior ‘welfare state’ superseded them. Most were founded without

any awareness of actuarial principles and contributions were set too low. To avoid collapse societies needed a constant influx of ‘young blood’, which slowly dried up over the nineteenth century leaving even the most successful societies crippled by the claims of perpetually infirm older members (see chapter 3). Others have called this narrative into question, arguing that the friendly societies were highly successful insurance organisations. For these optimists Victorian actuaries were wrong: the pay-as-you go model was highly resilient given that societies were able to recruit enough young members and accumulate funds to cover excessive claims.²¹⁵ These optimists deny the necessity of actuarial reform, graduated pricing, and even the emergence of state social security in the early twentieth century.²¹⁶

Both the optimistic and pessimistic perspectives are flawed in that they present friendly societies as inert entities. Yet these organisations changed considerably over the nineteenth century. The original Oddfellows lodges that emerged in the North West at the beginning of the nineteenth century were small, highly localised ‘box clubs’. By the end of the century each branch was a complex insurance organisation, maintaining a number of funds and providing complex products to a much larger group of members. Optimists have understated the weaknesses inherent in the early friendly society model. Through a comparison of the Oddfellows and the Foresters, this chapter has demonstrated that actuarial reform made individual branches more economically viable. The Oddfellows were more committed to internal reform than the Foresters, and this bore out in the 1881-1886 valuation results. Within the Foresters those branches that resisted abolishing uniform contributions ended up smaller, poorer, and less dynamic than the majority of courts that accepted the necessity of the change. Belligerent courts were also more likely to close.

The friendly society model had its flaws, but this does not mean that these organisations were doomed to fail. The pessimists are too fatalistic, as were the Victorian commentators that repeatedly prophesied the collapse of the friendly society movement. In response to the critics, J.F. Wilkinson wrote that ‘while in no way desirous of minimising the seriousness of this financial deficiency, no good, but

²¹⁵ Emery, ‘Risky Business’, p.223.

²¹⁶ Emery, ‘Risky Business’, pp.195-226; H. Emery, “‘Un-American’ or unnecessary? America’s rejection of compulsory government health insurance in the Progressive Era”, *Explorations in Economic History*, 47, 1, (2010), pp.68-81.

rather the reverse, will be done by indulging wholesale, as is the fashion of too many critics of Friendly Societies, in such damning epithets as ‘rotten’ and ‘insolvent’.²¹⁷ Wilkinson captured an essential cause of the longevity of the movement; rather than give up, a great many friendly societies accepted criticism and underwent an arduous process of internal reform. The Oddfellows and the Foresters were highly adaptable (like a great many other societies) because the bonds between the members were adaptable. As Wilkinson emphasised ‘As to the remedies [of a deficiency], it should always be borne in mind 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 the contract’.²¹⁸ Toynbee was equally optimistic, writing that ‘it is wonderful how soon a deficit can be converted into a balance if the members take resolute steps’.²¹⁹

The process of renegotiation was difficult. Reform succeeded largely because central authorities forced branches to adopt new rules and regulations. Yet ordinary members ratified the authority of central officials through a democratic governance structure. Ultimately reform succeeded because of the strength of the bonds between members and the enduring power of the culture of Oddfellowship and Forestry. Mutualism defeated pecuniary self-interest. Ordinary members and officials became convinced by the argument that the membership as a whole would collectively benefit from reform even if some individuals lost out, and that Oddfellowship and Forestry had to be preserved for future generations.

Whilst both the optimist and pessimist positions have their flaws, ultimately the more traditional pessimistic approach has more validity when considering the broader question of why mutualism was superseded by state administered social security. The unreformed friendly society model was fundamentally flawed. In the absence of actuarial reform the Oddfellows and the Foresters would have failed. Actuarial reform both preserved friendly societies, and critically prepared them for further rounds of bureaucratisation and rationalisation under the National Health insurance scheme from 1911.

²¹⁷ Wilkinson, ‘Friendly Society’, p.723

²¹⁸ Ibid., p.726.

²¹⁹ Toynbee, ‘The Present’, p.901.

Chapter 2 – Evaluating the effectiveness of friendly societies: Part 1 – Moral Hazard

Introduction

At the beginning of the twentieth century friendly societies were the most important form of private sickness and medical insurance in Britain, Australasia and North America. From humble beginnings in the industrial North of England they spread around the English-speaking world and attracted millions of members. What explains this success? A number of historians have emphasised demand side forces, as well as wider trends such as urbanisation, industrialisation, migration and low levels of state social security expenditure.²²⁰ Others have focused on the internal structure of the friendly societies – the vast majority of which were small-scale local organisations. The branch system encouraged the formation of strong social ties between members. In turn, social cohesion allowed friendly societies to overcome problems of moral hazard and adverse selection.²²¹ Members monitored one another's sickness claims, and screened new recruits to ensure they were healthy and trustworthy. Moreover a sense of social obligation to the branch discouraged opportunistic behaviour. The next two chapters will examine this argument and evaluate the effectiveness of the friendly societies.

A number of economic historians have explored whether mutual aid organisations overcame the challenge of moral hazard. Gottlieb has investigated whether cooperative insurance schemes in the US were able to overcome information asymmetries.²²² Guinnane and Streb have examined whether the German *Knappschaften*, working class mutual health insurers, effectively eliminated opportunistic claiming as they grew in size.²²³ However there are few quantitative

²²⁰ Gosden, *The Friendly Societies*, p.9; Gosden, *Self-help*, p.2; M. Gorsky, 'The growth and distribution of English friendly societies in the early nineteenth century', *The Economic History Review*, 51, 3, (1998), pp.489-511; G. Boyer, 'Insecurity, Security and Self-Help in Victorian and Edwardian Britain', in D. Eltis, F.D. Lewis and K.L. Sokoloff (eds.), *Human Capital and Institutions: A long run view* (Cambridge, 2009), pp.60-76, 82-3; Cordery, *British Friendly Societies*, pp.14-25, 68-81; Weinbren, *The Oddfellows*, pp.17-26; For Australasia see Green and Cromwell, *Mutual Aid*, pp.13-14, Thomson, *A world*, pp.17-39; Murphy, *A Decent Provision: Australian Welfare Policy, 1870-1949* (Farnham, 2011), pp.7-27, 48-53; J. Inglis, *Our Australian Cousins* (London, 1879), p.178.

²²¹ Murray, *Origins of American Health Insurance*, p.10; Emery, 'Fraternal sickness insurance'; Green and Cromwell, *Mutual Aid*, pp.21-22, 29-32, 45-60.

²²² Gottlieb, 'Asymmetric information', pp.271-272.

²²³ Guinnane and Streb, 'Moral Hazard', pp.70-104.

studies of the performance of British-style friendly societies. As discussed in chapter 1, Emery and Broten have tested the financial viability of the friendly society model but neither investigated the specific issues of moral hazard or adverse selection.²²⁴ In a short appendix to his influential book *Sick, Not Dead*, James Riley briefly considered the impact of fluctuations in branch finances on claims rates for a large sample of Foresters courts.²²⁵ However there are a number of problems with Riley's data and methodology (see below). The lack of any quantitative studies of friendly societies in Australasia is particularly striking and is a major gap in the literature.²²⁶ Friendly societies were highly successful in the Antipodes and official government statistics are of a particularly high quality, giving us a detailed picture of the workings of individual branches. A second problem in the existing literature is the use of aggregate data.²²⁷ To understand the friendly society movement we need to go deep into the lodge room and examine branch level claims and how individuals were recruited.

This chapter is broken into three sections. Section one discusses how friendly societies operated and summarises the existing literature. This discussion provides some necessary context for this chapter and the next. Section two uses data extracted from records relating to a large number of branches operating in New Zealand between 1877 and 1883. I examine whether friendly societies curbed opportunistic sickness claiming using the annual reports of the New Zealand Registrar of friendly societies. These reports were particularly detailed, and allow us to examine the issue of moral hazard with much greater precision than in previous studies. Firstly, because this paper draws on a panel data set I avoid some of the issues of endogeneity encountered when using cross sectional data. Secondly, because age is the most important predictor of morbidity it is difficult to identify the impact of other variables on sickness claiming without controlling for the age structure of the population in question. Previous studies have either neglected to control for age or have used inferior proxies such as the average age of members of a society. The annual reports

²²⁴ Emery, 'Risky Business?'; Broten, 'From sickness to death: the financial viability'.

²²⁵ Riley, *Sick, Not Dead*, pp.275-301.

²²⁶ There is currently only one full-length monograph on Australian friendly societies, Green and Cromwell, *Mutual Aid*; B. James and D. Weinbren, 'Getting a Grip: The Roles of Friendly Societies in Australia and Britain Reappraised', *Labour History*, 88, (2005), pp.87-104, is more focused on the culture and politics of the friendly societies.

²²⁷ In Australia, see Green and Cromwell, *Mutual Aid*.

of the New Zealand Registrar are unique in giving information on the age structure of branches over a number of years.

Section 1: How friendly societies overcame moral hazard

The basic unit of affiliated friendly societies and fraternal associations in Britain and the US was the local branch, variously called ‘lodges’, ‘courts’ or ‘tents’.²²⁸ These small groupings of between 50 and 200 individuals were both insurance organisations and social clubs. The Royal Commission of 1874 into friendly societies called the local branch the ‘primary social molecule of which the orders are composed’.²²⁹ In the case of the US Albert Clark Stevens called the branch system ‘the steel wire within the rope of brotherhood which tends to hold the membership in line in spite of occasional drawbacks’.²³⁰ In 1878 one friendly society official claimed that participation in a branch ‘established a bond of friendship and brotherhood, binding men together by an indissoluble tie.’²³¹ Branches engaged in sociable activities such as regular ‘lodge nights’, annual dinners, parades and the wearing of regalia.²³² Funeral rituals and traditions of secrecy were particularly important; they emphasised the lifelong nature of fraternal ties and established a clear boundary separating members from outsiders.²³³ For the statistician Walter Bayse, ‘beautiful and practical lessons in brotherly love have been taught to those who have taken part in or have witnessed the ceremonies’.²³⁴ The American Independent Order of Oddfellows manual of 1869 noted that:

Odd-fellowship demands the practice of benevolence and charity; and in order to impress these duties upon the mind... it has instituted solemn ceremonies, ordained frequent meetings and formed a language

²²⁸ Gosden, *Self-help*, pp. 40–50.

²²⁹ *Fourth report of the commissioners, Part I* [C.961], p.xxxiv.

²³⁰ Stevens, ‘Fraternal Insurance’, p.215.

²³¹ *MUIOOF of Victoria, Quarterly Board Meeting, 12th-15th March 1878* (Melbourne, 1878), p.15 (NBA.Z262, Box 373).

²³² Cordery, *British Friendly Societies*, pp.29-41, 81-83; Weinbren, *The Oddfellows*, p.87-100; Green and Cromwell, *Mutual Aid*, p.29; see also J.H. Ross, *A History of the Manchester Unity Independent Order of Oddfellows Friendly Society in Victoria, 1840-1910* (Melbourne, 1911), p.11.

²³³ Gosden, *Self-help*, p.50; Weinbren, *The Oddfellows*, pp.100-106; *Rules of the MUIOOF in Victoria* (Melbourne, 1897), p.80; Kaufman, *For the Common Good?*, p.46; G. Simmel, ‘The Sociology of Secrecy and of Secret Societies’, *American Journal of Sociology*, 11, 4, (Jan. 1906), pp.441-498.

²³⁴ W. Bayse, *History and Operation of Fraternal Insurance* (Rochester, N.Y., 1919), p.45.

of signs - all designed to produce benevolence, and, by educating the moral faculties, promote the well being of society.²³⁵

These practices helped encourage the formation of strong social bonds and allowed branches to respond effectively to two classic problems in sickness insurance: adverse selection and moral hazard.²³⁶

Friendly societies faced two major ‘agency problems’. Adverse selection will be discussed in the next chapter. Moral hazard is a problem encountered in all types of insurance. Once insured, an individual had an incentive to claim sickness benefits and change their behaviour, by lowering their sickness threshold or ceasing to take care to avoid ill health.²³⁷ Friendly societies were acutely aware of the problem of moral hazard, or as they called it ‘malingering’.²³⁸ The problem lay in deciding what counted as a legitimate sickness episode. In the case of life insurance it is almost impossible to make a false claim because it is extremely difficult to feign death! Monitoring morbidity is more subjective.²³⁹ Sickness is at once a physiological, emotional and cultural construct; exogenous forces (diseases and injuries) and forces within ourselves, some partially under our control, influence the decision as to when we have passed the threshold from wellness into sickness.²⁴⁰ Friendly societies defined sickness as being too sick to work. This was a relatively stable definition but in any branch there would have been a variety of interpretations of what being ‘too sick to work’ meant. Edward Brabrook contrasted ‘a man of firm mind and industrious temperament [who] will continue at work’ with ‘a man of flabby and lazy disposition [who] would lie up for the same disorder’.²⁴¹ Writing in 1896 one friendly society official complained:

It is no use disguising the fact, for we could point out [many]... who have the happy knack of getting well after receiving twenty-five consecutive weeks ‘sick allowance’ (the period during which the

²³⁵ P. Donaldson, *The Oddfellows’ Text-Book and Manual* (Philadelphia, 1869), p.40.

²³⁶ Emery, ‘Fraternal Sickness Insurance’; Emery, ‘Risky Business?’, pp.199, 214; a similar point is made in B. Harris, ‘Introduction’ in Harris, (ed.), *Welfare and Old Age*, p.2.

²³⁷ Estrin and Laidler, *Introduction to Microeconomics*, p.395; Einav *et al.*, ‘Selection on Moral Hazard’, p.178; Aron-Dine *et al.*, ‘The RAND Health Insurance Experiment’, pp.197-222.

²³⁸ Green and Cromwell, *Mutual Aid*, p.53-60; Riley, *Sick, Not Dead*, p.288.

²³⁹ Murray, *Origins of American Health Insurance*, p.33.

²⁴⁰ Riley, *Sick, Not Dead*, p.8-10; H. Kennedy, *The Unmasking of Medicine* (London, 1981), pp.1-24, 84-86.

²⁴¹ B. Harris, M. Gorsky, A.M. Guntupalli and A. Hinde, ‘Sickness Insurance and Welfare Reform in England and Wales, 1870-1914’, in Harris, (ed.), *Welfare and Old Age*, p.93.

maximum rate of sick benefit was payable).²⁴²

Supporting the argument that members claimed opportunistically, Altar and Riley have shown that in Britain claims went down when wages were higher, suggesting members varied their sickness thresholds to reflect the opportunity cost of absence from work.²⁴³

Friendly societies responded to these challenges by establishing a waiting period after joining before a member could claim, keeping benefits lower than full earnings and hiring branch doctors to certify sickness episodes.²⁴⁴ These mechanisms were open to commercial insurers. The critical advantage of the local-branch system lay in the social intimacy of members. The culture of friendly societies and fraternal associations emphasised a member's moral responsibility to his fellow members.²⁴⁵ Members probably curtailed claiming knowing that they were not taking money from some faceless insurance company but from their friends.²⁴⁶ Social cohesion also facilitated highly effective monitoring. In most societies there were rules prohibiting drinking, being out after a certain time or engaging in any form of work whilst claiming benefits.²⁴⁷ Yet more significant was that members policed claims. 'Sick stewards' were voluntary officials appointed to visit the sick, but every member took responsibility for keeping an eye on members claiming. Minute books are full of examples of members being reprimanded because another member spotted them in a pub or engaged in work.²⁴⁸ A number of historians have argued that these measures made friendly societies highly effective at reducing the risks of moral hazard.²⁴⁹

The role of medical officers in certifying and monitoring claims deserves more discussion. Whilst members agreed to monitor one another and recruit new members,

²⁴² Green and Cromwell, *Mutual Aid*, p.53.

²⁴³ Members were somewhat less likely to take time off from work when wages were high, according to G. Alter and J.C. Riley, 'How Long Does Wellness or Sickness Predict Future Health?', Working Paper, Indiana University Population Institute, 1998.

²⁴⁴ Gosden, *Self-help*, p.16; Riley, *Sick, Not dead*, pp.100, 131-132, 276, 283-4; Gorsky, 'Mutual Aid', p.320.

²⁴⁵ Weinbren, *The Oddfellows*, pp.77, 133-4; Green and Cromwell, *Mutual Aid*, pp.52-58;

²⁴⁶ Guinnane and Streb, 'Moral Hazard', pp.101-102; Green and Cromwell, *Mutual Aid*, pp.58-60, 66-71.

²⁴⁷ Weinbren, *The Oddfellows*, pp.46-47

²⁴⁸ Riley, *Sick, Not Dead*, pp.101-103; Green and Cromwell, *Mutual Aid*, pp.52-8; Cordery, *British Friendly Societies*, pp.25-27.

²⁴⁹ Riley, *Sick, Not Dead*, pp.273-289, 292; Emery, 'Risky Business?'; Green and Cromwell, *Mutual Aid*, pp.52-3.

lodge doctors played a critical ‘gatekeeper’ role, signing off on claims and administering medical tests for new members. The relationship between lodges and doctors has received extensive historiographical attention, most notably in the work of James Riley and David Green.²⁵⁰ In the late 19th century working-class patients faced a buyers market for health care services: there were a large number of general practitioners looking to sell their services to relatively few affluent patients. Consequently GPs turned to friendly society lodges for employment, and were hired on cut-price annual contracts based on the number of members in the lodge. This ‘capitation fee’ approach removed the financial incentive to encourage excessive use of medical services.²⁵¹ It also bred discontent, as physicians disliked being dependent on cheap contracts.

This chapter does not discuss the role of doctors in monitoring and certifying claims. Rather I explore how financial incentives and internal lodge dynamics (such as the size of the lodge, the age of members, the amount paid out for benefits) affected claims rates. Two responses can be made to this oversight. Firstly, whilst doctors played an important role in actually certifying claims, the critical differentiator of the friendly society model was mutual monitoring; members monitored each other’s claims, which in effect meant that the medical certification process was being monitored. As commercial insurers acknowledged (see below), mutual monitoring and the social bonds between members was the reason why friendly societies succeeded whereas commercial sickness insurers failed; medical certification was a necessary practice, but alone it was insufficient to operate successful sickness insurance.

Secondly, whilst the relationship between lodges and doctors undoubtedly affected claims rates, other factors were more important. This chapter uses econometric techniques to test the impact of a number of variables on sickness claims rates in a large sample of friendly societies in New Zealand. The most important determinant of a branch’s morbidity experience was the age structure of the members. This varied a great deal between branches. In contrast the relationship

²⁵⁰ Riley, *Sick, Not Dead*; Green, *Working-Class Patients*.

²⁵¹ M. Gorsky, *et al*, ‘The ‘cultural inflation of morbidity’ during the English mortality decline: A new look’, *Social Science and Medicine*, 73, (2011), p.1781.

between doctors and branches was relatively stable. The vast majority of organisations in the sample were branches of ‘affiliated societies’, with very similar policies regarding the role of medical officers. Indeed branch level rulebooks were based on society wide general rulebooks. In the period under consideration (1877-1884) all societies in New Zealand paid doctors by capitation fee. There would have undoubtedly been some variation in the amount paid, but any differences between branches would have been minor. Unfortunately the material from which the sample was compiled did not provide information on the medical officer’s role. To overcome this limitation I have used a fixed effects regression analysis to compare the impact of a number of variables on between lodge variation in claims rates, and within lodge variation in claims rates. When testing the impact of the size of the branch on claims, for example, it is possible that omitting information on the relationship between the doctor and the branch will bias the results; it could be that different sized lodges adopted different policies with regard to the certification of claims to reflect the larger volume of work undertaken by the doctor. By including ‘fixed effects’ we are able to control for this unobserved lodge level characteristic, and examine within lodge variation over time.

Friendly societies had very low overhead costs.²⁵² Because they were self-governing organisations members undertook the majority of the administrative work. Individuals were expected to volunteer for positions in the society – known as ‘going through the chairs’. The branch secretary was often paid a small honorarium, but most official positions were unpaid.²⁵³ The reward was regard, approbation and social standing within the group.²⁵⁴ This meant branches had a cheap way of tackling the problems of adverse selection and moral hazard because monitoring and recruitment were undertaken for free. In addition to the cost advantage, self-governance probably reduced claims because it cultivated a sense of responsibility and propriety when it

²⁵² Wilkinson, ‘Friendly Society’, p.723.

²⁵³ Downing, ‘Social Capital’, pp.9-14; Green and Cromwell, *Mutual Aid*, pp.35-43; Gorsky, ‘Mutual aid’, p.304.

²⁵⁴ Cordery, *British Friendly Societies*, pp.99-119; A. Offer, ‘Between the gift and the market: the economy of regard’, *The Economic History Review*, 50, 3, (1997), pp.450-476; see also M.B. Petersen, A. Roepstoff and S. Serritzlew, ‘Social Capital in the Brain?’, in G.T. Svendsen and G.L.H. Svendsen, (eds.), *Handbook of social capital: the troika of sociology, political science and economics* (Cheltenham, 2009), pp.75–92; R.F. Baumeister and M.R. Leary, ‘The need to belong: desire for interpersonal attachments as a fundamental human motivation’, *Psychological Bulletin*, 117, 3, (1995), pp.497-529.

came to the society's finances.²⁵⁵

The inherent advantages of the friendly society model meant these organisations could offer cheap insurance to a large proportion of the population. In 1914-15 the Australian government sponsored a report on the cost of living. The investigation found that contributions to friendly societies made up just 1-2% of weekly expenditure (see **table 2.1**). In Britain the cost of joining the Oddfellows, undoubtedly one of the most expensive societies, was a small fraction of average wages. **Figure 2.1** uses Allen's wage data for different occupations. Even for an unskilled labourer in Northern England, contributions never amounted to more than 4% of wages. The low cost of participation had an impact on the socio-economic profile of members. Friendly societies were genuinely working class organisations. In the case of Britain it has been argued that membership was the badge of the skilled worker. Local-level studies have called this argument into question. In a study of the Welsh county of Glamorgan, Dot Jones found that a broad cross section of workers joined and members were from industrial and rural areas.²⁵⁶ Similarly David Neave has argued that in the East Riding of Yorkshire the majority of members of the Foresters were unskilled rural labourers.²⁵⁷

Table 2.1: Expenditure on friendly society membership as a percentage of the weekly cost of living in 1914 in major Australian cities.

| City | Union dues as a % of the cost of living | Friendly society dues as a % of the cost of living |
|-------------|--|---|
| Melbourne | 0.74 | 1.48 |
| Sydney | 0.69 | 1.38 |
| Brisbane | 0.77 | 1.54 |
| Adelaide | 0.70 | 1.40 |
| Perth | 0.68 | 1.35 |
| Hobart | 0.76 | 1.51 |

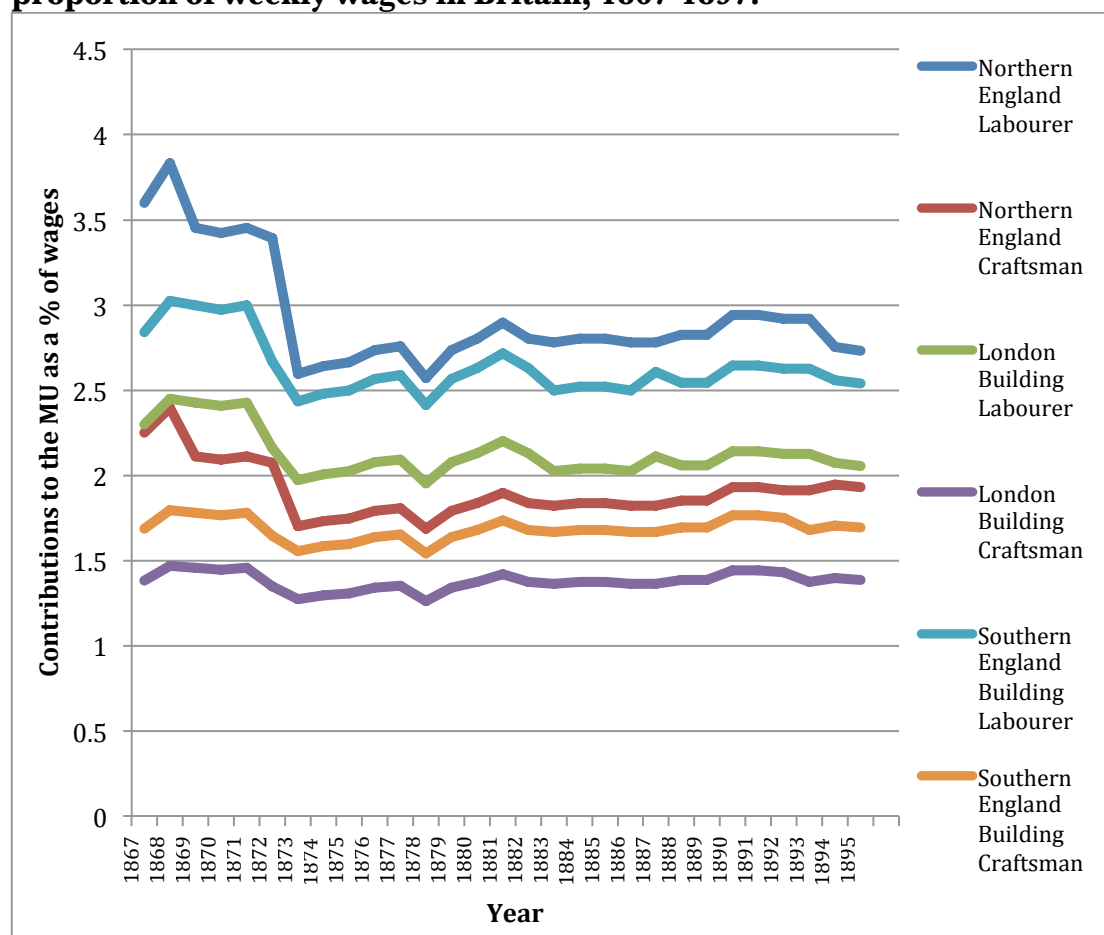
Source: E.E. Keep and W.D. Gilfillan, *Report of the Royal Commission on the Basic Wage* (Melbourne, 1920), p.53.

²⁵⁵ Green and Cromwell, *Mutual Aid*, pp.58-60, 66-71.

²⁵⁶ D. Jones, 'Did Friendly Societies Matter? A Study of Friendly Society Membership in Glamorgan, 1794-1919', *Welsh Historical Review*, 3, 2, (1985), p.339.

²⁵⁷ Neave, *Mutual Aid*, p.97.

Figure 2.1: Contributions per member in the Oddfellows (MU) as a proportion of weekly wages in Britain, 1867-1897.



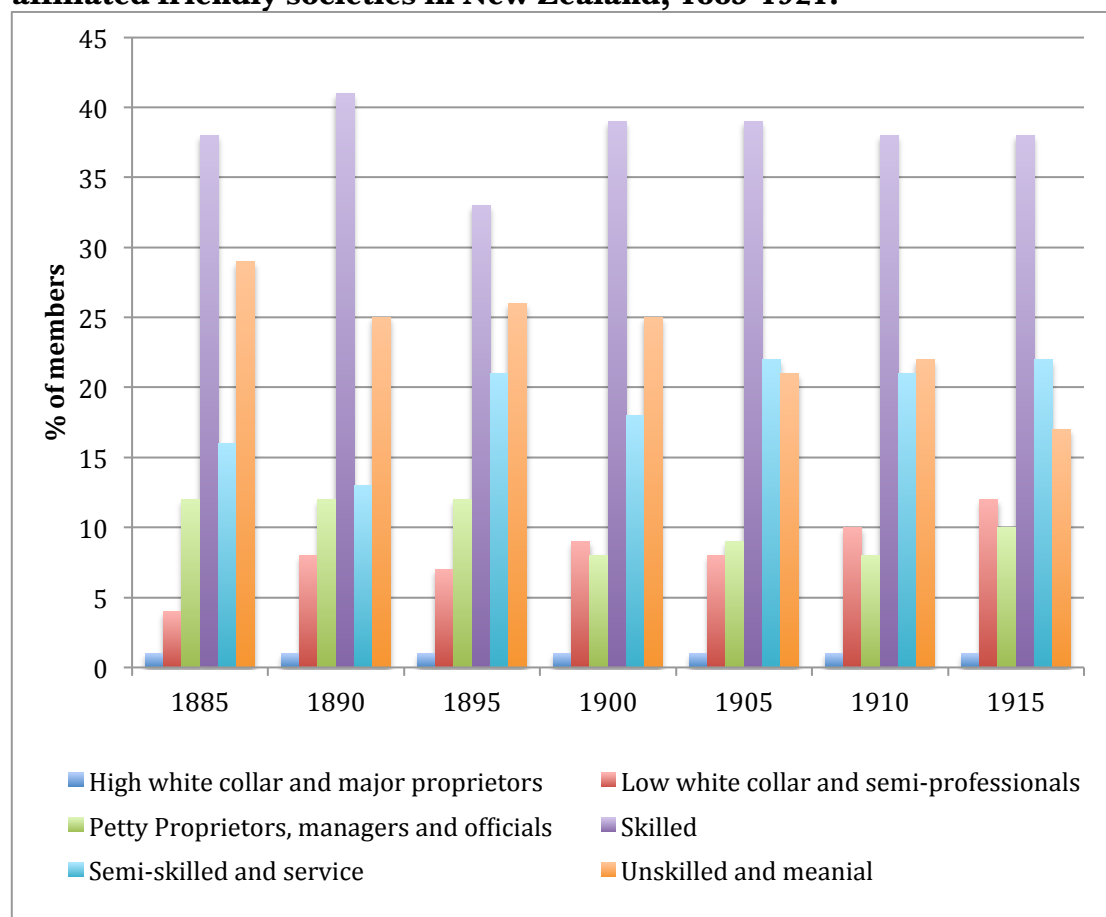
Source: Using R.C. Allen’s ‘Wage and Price History’ data sets. For discussion of the compilation see R.C. Allen, ‘The Great Divergence in European Wages and Prices from the Middle Ages to the First World War’, *Explorations in Economic History*, 38, 4, (2001), pp.411-447. Data accessed 12/06/2015 at <http://www.nuffield.ox.ac.uk/People/sites/Allen/SitePages/Biography.aspx>; Contributions scales were very complicated, with different prices for different categories of membership. Here I have used the contributions per annum per member, *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1896* (Manchester, 1896), pp.310-312 (OOA).

It is likely that higher real wages in Australasia allowed less well-paid sections of the working classes to join friendly societies.²⁵⁸ In the case of New Zealand Jennifer Carlyon has compiled occupational information on individuals joining a sample of 61 branches of affiliated societies located across New Zealand between 1885 and 1930. Skilled, semi-skilled and unskilled individuals dominated the movement. This supports the hypothesis that the friendly societies were sufficiently cheap to make them accessible for the poorer segments of the working population. As shown in

²⁵⁸ R. Markey, ‘The History of Mutual Benefit Societies in Australia’, in van der Linden, *et al.* (eds.), *Social Security Mutualism*, pp.152-155; Green and Cromwell, *Mutual Aid*, pp.13-14.

figure 2.2, from 1885 to 1910 between 33% and 41% of members were from an unskilled or semi-skilled occupations.

Figure 2.2: Occupations of members admitted to a sample of branches of affiliated friendly societies in New Zealand, 1885-1921.



Source: Carlyon, 'Friendly societies in New Zealand', p.71.

There are no comparable studies for Australia. To explore the occupational structure of societies in Australia I have compiled individual level data from five membership registers of Oddfellows lodges in Victoria (held in the Noel Butlin archive in Canberra). Many of the membership registers were damaged or illegible and lodge officials varied in what information they felt was important and how diligently they kept the books. The registers selected were some of the clearest, with the fewest missing data, and were recorded in such a way as to make them compatible.²⁵⁹ The Camberwell and Gold Miner's Pride lodges were in Melbourne, the Mildura and

²⁵⁹ 'Loyal Camberwell Lodge Membership Register' (NBA.Z262, Item 237); 'Loyal Stawell Lodge Membership Register' (NBA.Z227, Box 410); 'Loyal Gold Miner's Pride Lodge Membership Register' (NBA.Z227, Item 74); 'Loyal Myrtleford Lodge Membership Register' (NBA.Z227, Box 3); 'Loyal Mildura Lodge Membership Register, (NBA.Z227, Item 415)'.

Myrtleford lodges were in rural areas, and the Stawell Lodge was a rural deep shaft mining settlement (see **figure 2.3**).²⁶⁰ When aggregated these registers give information on the occupation of 2,275 members joining between 1858-1921. These lodges are not perfectly representative. However they represent both rural and urban areas from across Victoria. The sample is also temporally skewed towards the end of the period (see **table 2.2** and **figure 2.4**) reflecting that the membership grew over the years.

Figure 2.3: Location of Oddfellows lodges in Victoria used in a sample of membership registers, Victoria 1858-1921.

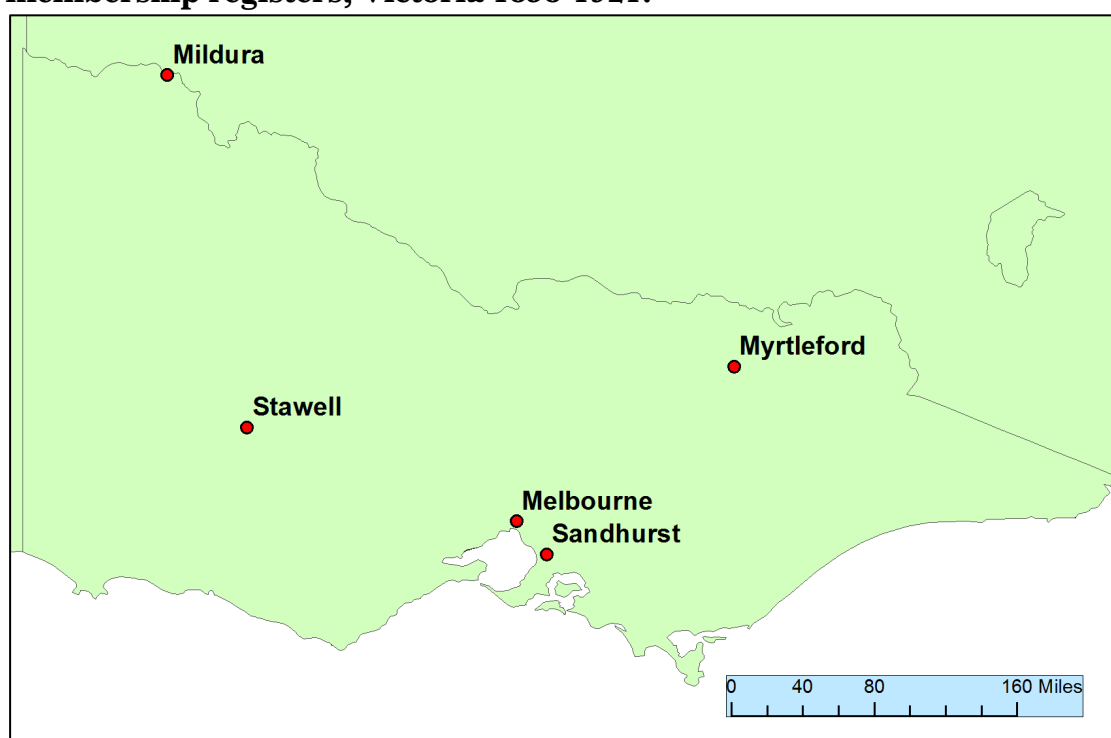


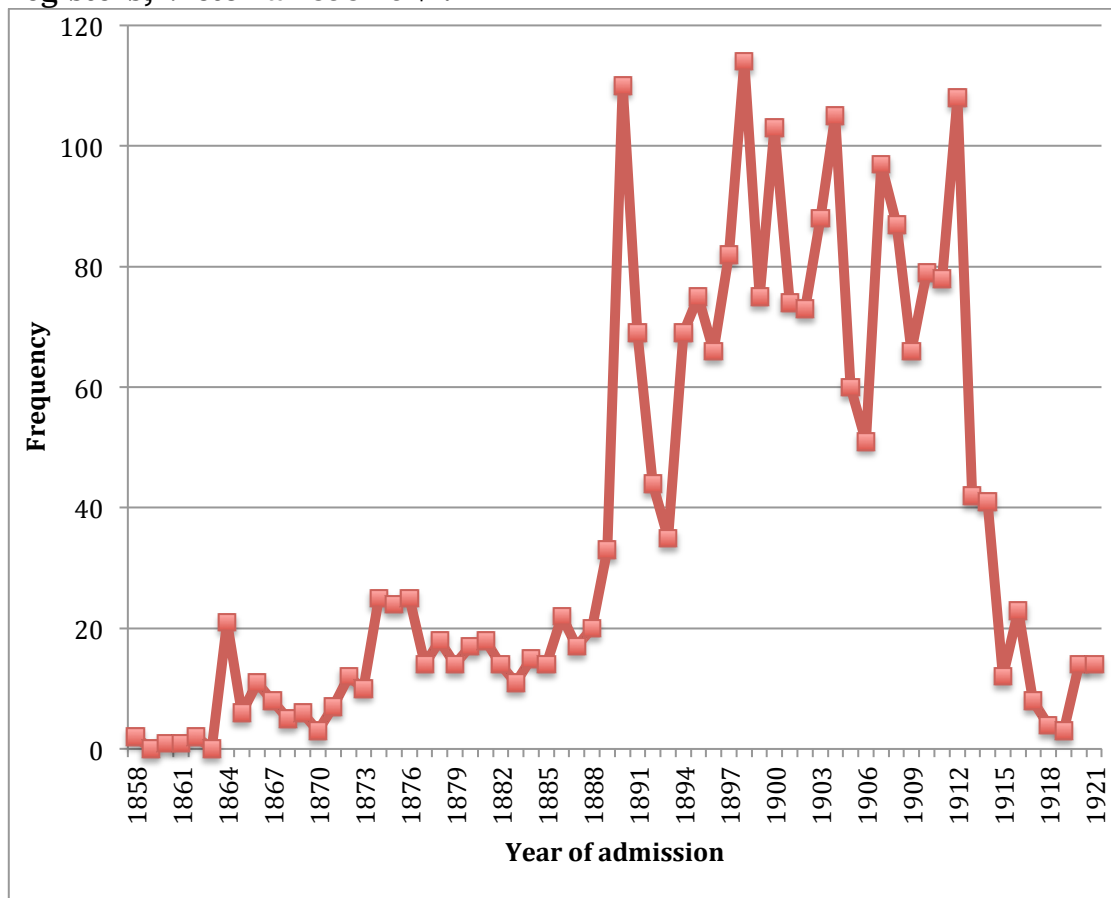
Table 2.2: Number of members in each of the sampled membership registers, Victoria 1858-1921.

| Name and place | Number of members | Dates covered |
|---|--------------------------|----------------------|
| Camberwell Lodge, Camberwell | 424 | 1864-1921 |
| Stawell Lodge, Stawell | 586 | 1874-1912 |
| Gold Miner's Pride, Sandhurst (Bendigo) | 593 | 1858-1918 |
| Myrtleford Lodge, Myrtleford | 171 | 1884-1917 |
| Mildura Lodge, Mildura | 602 | 1890-1912 |

Source: see footnote 259 page 101.

²⁶⁰ G. Blainey, *A History of Victoria* (Melbourne, 2006), p.42.

Figure 2.4: Histogram of the year of entry in sampled membership registers, Victoria 1858-1921.



Source: see footnote 259 page 101.

As in Britain working class individuals dominated these societies. A large proportion of members were miners. This undoubtedly reflected the occupational structure of Victoria but it could also reflect that miners were well paid and could afford the contributions. Mining was also dangerous, and therefore miners needed to be insured in case they incurred an injury that prevented them from working.

Table 2.3: Occupations of members admitted to a sample of Oddfellows lodges in Victoria, 1858-1921.

| Occupational categories | Frequency | % |
|---|------------------|--------------|
| The Products of land and water | 118 | 5.0 |
| Mining and Quarrying | 420 | 17.7 |
| Printing and Publishing | 9 | 0.4 |
| Earthenware and pottery manufacture | 2 | 0.1 |
| Precious metal and jewellery manufacturer | 5 | 0.2 |
| Instrument Making | 5 | 0.2 |
| Chemical, soap, adhesive manufacturer | 2 | 0.1 |
| Iron and Steel Manufacture and products | 109 | 4.6 |
| Non-ferrous metal manufacturer and products | 2 | 0.1 |
| Machine making, engineering, tool manufacturer | 76 | 3.2 |
| Road Transport Vehicle Manufacturer | 23 | 1.0 |
| Boat and ship building | 1 | 0.0 |
| Brick and tile manufacturer | 13 | 0.5 |
| Stone processing industries | 8 | 0.3 |
| Building and construction | 105 | 4.4 |
| Gas, coke, water, sewage industries | 3 | 0.1 |
| Minor manufacturer | 10 | 0.4 |
| Food, drink and tobacco process and vending | 150 | 6.3 |
| Clothing and footwear manufacturer | 30 | 1.3 |
| Wood industries | 96 | 4.0 |
| Industries using leather, hair, bone, straw, other fibres | 14 | 0.6 |
| Furnishing | 2 | 0.1 |
| Dealer in raw products of land | 3 | 0.1 |
| Dealers in the raw products of land and water | 3 | 0.1 |
| Dealers in precious metals | 2 | 0.1 |
| Dealers, other | 8 | 0.3 |
| Sellers of chemical products | 6 | 0.3 |
| Itinerant small traders | 13 | 0.5 |
| Small traders | 24 | 1.0 |
| Sellers of food, drink, tobacco | 70 | 2.9 |
| Sellers of clothing and footwear | 30 | 1.3 |
| Transport and communications | 188 | 7.9 |
| Hotels, restaurants, public houses, lodgings | 21 | 0.9 |
| Entertainment | 4 | 0.2 |
| Other service industries | 18 | 0.8 |
| Domestic services | 111 | 4.7 |
| Financial, commercial, administrative services | 112 | 4.7 |
| Professions | 23 | 1.0 |
| Public, government and church services | 37 | 1.6 |
| No stated occupation | 106 | 4.5 |
| Without occupation (students) | 2 | 0.1 |
| General Labourer | 392 | 16.5 |
| Total | 2376 | 100.0 |

Note: Occupations were classified using the Primary, Secondary, Tertiary (PST) system developed by E.A. Wrigley. Classification system available at

<http://www.geog.cam.ac.uk/research/projects/occupations/categorisation/>. *Source:* see footnote 259 page 101.

Surprisingly in both urban and rural lodges ‘general labourers’ formed the next most important category (**see table 2.3**). This is testimony to the success of the friendly society model; even the unskilled were able to participate and insure themselves against sickness.

Friendly societies achieved remarkable market dominance. In contrast commercial insurers could not rely on the social ties between members to tackle the problems of moral hazard or adverse selection.²⁶¹ This can be considered a market failure.²⁶² Market failures can occur when the principal-agent problems involved in contract formation and exchange prevent the formation of a market or prevent a market from operating optimally.²⁶³ In this instance, commercial insurers would have had to factor the risk of adverse selection and moral hazard into the price of the contract. Hypothetically speaking, commercial sickness insurance would have been so exorbitantly expensive that individuals would have preferred to take the risk of remaining underinsured.²⁶⁴ Contemporaries were aware of this. In 1909 the president of the Prudential Insurance Company conceded that ‘the assurance of a stipulated sum during sickness can only safely be transacted by fraternal organisations having a perfect knowledge of and complete supervision over the individual members.’²⁶⁵

²⁶¹ Emery, ‘Fraternal Sickness Insurance’; Gottlieb, ‘Asymmetric information’, p.275; Emery, ‘Risky Business?’, p.199.

²⁶² P. Dasgupta, *Economics: A Very Short Introduction* (Oxford, 2007), pp.82-3.

²⁶³ U. Birchler and M. Büttler, *Information Economics* (London, 2007), pp.274-277.

²⁶⁴ There is a vast literature on this issue, see K.J. Arrow, ‘Uncertainty and the Welfare Economics of Medical Care’, *American Economic Review*, 53, 5, (1963), pp.941-973; M. Pauly, ‘The Economics of Moral Hazard: Comment’, *American Economic Review*, 58, 3, (1968), pp.531-536; R. Zeckhauser, ‘Medical Insurance: a Case Study of the Tradeoff Between Risk Spreading and Appropriate Incentives’, *Journal of Economic Theory*, 2, 1, (1970), pp.10-26; M. Spence and R. Zeckhauser, ‘Insurance, Information, and Individual Action’, *American Economic Review*, 61, 2, (1971), pp.380-387; M. Spence, ‘Job Market Signalling’, *The Quarterly Journal of Economics*, 7, 3, (1973), pp.355-374; M. Pauly, ‘Over insurance and Public Provision of Insurance: the Roles of Moral Hazard and Adverse Selection’, *The Quarterly Journal of Economics*, 88, 1, (1974), pp.44-54; M. Rothschild and J.E. Stiglitz, ‘Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information’, *The Quarterly Journal of Economics*, 90, 4, (1976), pp.630-649; C. Wilson, ‘A Model of Insurance Markets with Incomplete Information’, *Journal of Economic Theory*, 16, 2, (1977), pp.167-207; C. Wilson, ‘The Nature of Equilibrium in Markets With Adverse Selection’, *Bell Journal of Economics*, 11, 1, (1980), pp.108-130; Estrin and Laidler, *Introduction to Microeconomics*, pp.388-396; D.M. Cutler and R. J. Zeckhauser, ‘The Anatomy of Health Insurance’, in A.J. Culyer and J.P. Newhouse (eds.), *Handbook of Health Economics*, (Oxford, 2000), p.627; D.M Cutler, ‘Market Failures in Small Group Health Insurance’, NBER Working Paper Series, No.4879, (October, 1994), pp.1-8; P. Bajari, H. Hong, A. Khwaja, and C. Marsh, ‘Moral Hazard, Adverse Selection and Health expenditures: A Semiparametric Analysis’, NBER Working Paper Series, No.12445, (August, 2006), p.2.

²⁶⁵ P. Starr, *The Social Transformation of American Medicine: The Rise of a Sovereign Profession and the Making of a Vast Industry* (New York, 1982), p.242.

Friendly societies overcame the market failure because the social intimacy of members helped solve these principal-agent problems.

There is, however, evidence that comparable mutual aid organisations failed to eliminate the problem of moral hazard. Guinnane, Streb and Jopp have argued larger and faster growing German *Knappschaften* experienced much higher sickness claims because monitoring was more difficult than in smaller, more stable, organisations.²⁶⁶ They suggest that this reflected a ‘design flaw’ in the movement; minimising moral hazard required small organisations whilst spreading risks demanded large organisations.²⁶⁷ In a study of American establishment sickness funds (work based sickness cooperatives), John Murray has argued that ‘paid sick leave did create an absenteeism moral hazard’, but that the schemes were able to counter the problem through monitoring.²⁶⁸ There are a number of problems with Murray’s methodology, demonstrating how difficult it is to test for moral hazard. In the case of the British friendly societies, a number of contemporary commentators were concerned that varying sickness rates did not reflect genuine morbidity. A number of behavioural, attitudinal, and organisational factors were cited: malingering; lax monitoring in large branches; the erosion of a culture of mutual obligation upon which the movement was built; and the tendency of richer branches to sanction more claims.²⁶⁹ The rest of this chapter will put these competing claims to the test.

Section 2: Sickness claims in New Zealand

Testing whether friendly societies overcame the problems of moral hazard is empirically difficult. Ideally we would have individual-level panel data on morbidity both before and after an individual joined a friendly society, as well as the same information for individuals who never participated. This would allow us to examine whether particularly unhealthy individuals signed up, and whether participants were more morbid after joining. Gottlieb analysed two household budget surveys that recorded the sickness experience of both members and non-members.²⁷⁰ He was able

²⁶⁶ T.W. Guinnane, T.A. Jopp and J. Streb, ‘The Costs and Benefits of Size in a Mutual Insurance System: The German Miners Knappschaften, 1854-1923’, in Harris (ed.), *Welfare and Old Age*, pp.39-42.

²⁶⁷ *Ibid*, p.31.

²⁶⁸ Murray, *Origins of American Health Insurance*, p.170.

²⁶⁹ Harris *et al.*, ‘Sickness Insurance’ pp.93-97.

²⁷⁰ Gottlieb, ‘Asymmetric information’, pp.278-280.

to show that members were no sicker than non-members, and concluded that fraternal insurers overcame adverse selection. Yet it is impossible to separate adverse selection from moral hazard. Household budgets are a snapshot, and we cannot know whether members were sicker than they otherwise would have been had they not joined a society.

John Murray has recently argued that industrial sickness funds in the US, similar to friendly societies but organised around individual firms, did not overcome sick pay moral hazard.²⁷¹ This is pivotal to his argument that Progressive attempts to enact compulsory sickness and health insurance were misguided because they would have increased the scope for moral hazard and absenteeism.²⁷² Murray's argument suffers from a number of methodological and conceptual problems. Using individual level surveys, Murray tests the impact of participation and the value of benefits on the probability of an individual reporting sick and duration of time spent sick. Murray controls for age and finds that participation increased the tendency to report sick, and that the value of benefits was positively correlated with sickness duration over the year. The cross-sectional nature of the data makes it difficult to distinguish between moral hazard and adverse selection. Individuals with a tendency to claim could have joined societies with higher benefits, explaining the positive coefficients in Murray's results.²⁷³ Murray also draws on a cross sectional census of funds and finds that an increase in the value of benefits offered increased the number of sick days per member. Again, this result might reflect adverse selection and not moral hazard. Moreover Murray did not include crucial controls for the age structure of the membership, or the financial state of individual organisations.²⁷⁴

Compounding these empirical challenges, interpreting moral hazard is conceptually difficult. As MV Pauly emphasised in a classic paper on the subject: the term moral hazard is misleading since it simply denotes seeking more medical care with insurance than in its absence, 'a result not of moral perfidy, but of rational economic behaviour'.²⁷⁵ If the provision of sickness insurance increased sickness

²⁷¹ Murray, *Origins of American Health Insurance*, pp.167-200.

²⁷² *Ibid.*, pp.60-61.

²⁷³ *Ibid.*, pp.178-190.

²⁷⁴ *Ibid.*, pp.190-196.

²⁷⁵ Pauly, 'The economics of Moral Hazard', p.535.

claims, it might have been for two very different reasons. On the one hand, individuals may have started to absent themselves from work even though they were healthy enough to work – a sort of unworthy moral hazard. On the other hand insurance might have enabled truly sick workers to take time off, whereas without cover they were unable to afford the lost wages, potentially prolonging their ill health. Murray concedes that this was a possibility but argues that the increased propensity to claim should be interpreted as evidence of unworthy moral hazard (again, to support his argument that state sickness/health insurance led to malingering).²⁷⁶ This is why it is important to control for the age profile of members – as a proxy for the physiological likelihood of morbidity. Financial variables can also be used to test for the possibility that wealthier funds were able to approve more *legitimate* claims than poorer funds.

Information on the age structure of individual friendly societies is scarce. The directories of the Foresters recorded the average age of the member of courts, and the total number of sick days claimed over the year.²⁷⁷ James Riley used these directories in his pioneering study of morbidity in late nineteenth century Britain. Riley also considered the influence of non-physiological factors on claiming patterns – such as the financial state of the branch.²⁷⁸ Riley's work provoked an extensive discussion of whether friendly societies records could be used to study morbidity.²⁷⁹ Specific

²⁷⁶ *Ibid.*, p.178.

²⁷⁷ Riley, *Sick, Not Dead*, pp.xv, 7-8, 162-5; for example see *Directory of the Ancient Order of Foresters Friendly Society for 1904*, pp.3-391 (FHT).

²⁷⁸ Riley, *Sick, Not Dead*, pp.275-301.

²⁷⁹ B. Harris, 'Morbidity and mortality during the health transition: a comment on J.C. Riley, "Why sickness and death rates do not move parallel to one another over time"', *Social History of Medicine*, 12, 1, (1999), pp.125-131; Macnicol, *The Politics*, pp.125-31; R. Woods, 'Physician, heal thyself: The health and mortality of Victorian doctors', *Social History of Medicine*, 9, 1, (1996), pp.22-23; R. Woods, "'Sickness is a baffling matter", A reply to James C. Riley', *Social History of Medicine*, 10, 1, (1997), pp.159-61; H. Emery, 'Review of J.C. Riley, *Sick, Not Dead: the Health of British Workmen during the Mortality Decline*', EH.Net, H-Net Reviews, (July 1998) accessed 15/06/2015 at [<http://www.h-net.org/reviews/showrev.php?id=2170>]; B. Harris, M. Gorsky, A.M. Guntupallu and A. Hinde, 'Ageing, Sickness and Health in England and Wales during the Mortality Transition', *Social History of Medicine*, 24, 3, (2011), pp.643-665; C. Edwards, *et al.*, 'Sickness, insurance and health: assessing trends in morbidity through friendly society records', *Annales de Demographie Historique*, 1, 1, (2003), pp.131-167; Murray, 'Social Insurance Claims as Morbidity Estimates', p.244; B. Harris, M. Gorsky, A.M. Guntupalli, and A. Hinde, 'Long-term changes in sickness and health: further evidence from the Hampshire Friendly Society', *The Economic History Review*, 65, 2, (2012), pp.720-721; S.R. Johansson, 'The health transition: the cultural inflation of morbidity during the decline of mortality', *Health Transition Review*, 1, 1, (1991), pp. 39-65; M. Gorsky, and B. Harris, 'The measurement of morbidity in interwar Britain: evidence from the Hampshire Friendly Society', in I. Borowy and W. Gruner, (eds.), *Facing Illness in Troubled Times: Health in Europe in the Interwar Years, 1918-1939* (Frankfurt-am-Main, 2005), pp.129-163; J.E. Murray, 'Worker absenteeism under voluntary and compulsory sickness

criticism has been made of Riley's decision to use the average age of a court as a proxy for the age structure of the branch, as this did not take into account the effect of the age distribution of members on sickness rates per member. Riley argued that the initiation rate of the branch was a reasonable control for age dispersion. Branches tended to recruit young members, and therefore an increase in the initiation rate would skew the age distribution to the left. In response Herbert Emery argued that Riley did not account for the possibility that exits from the lodge also affected the age dispersion. If younger members were leaving after a short membership spell then this would have skewed the age distribution to the older end, thus cancelling out the initiation rate effect. Emery concluded that because the average age and initiation rate variables were inadequate controls, the rise in morbidity rates that Riley observed was probably due to changes in the age structure of branches. Other authors have repeated these criticisms and have looked for data elsewhere.²⁸⁰

The records of the Registrar of friendly societies in Britain have generally been dismissed as inadequate and only useful as a starting point.²⁸¹ The Registrar was responsible for monitoring and assisting the friendly societies; it registered rules, issued advice and compiled annual reports based on returns from individual branches.²⁸² Registration was incentivised but was ultimately voluntary. For example in Britain the 1855 and 1875 Acts of Parliament authorised the purchase of buildings and the investment of funds in mortgages and land for registered societies.²⁸³ The voluntary nature of registration has led many to dismiss the Registrars' reports as a source.²⁸⁴ Moreover the information collected by the British Registrars was generally not very detailed. However there were Registrars offices in other parts of the world and they seem to have been more successful. By 1916 there were Registrars in Ireland, Scotland, Canada (Ontario), New South Wales, New Zealand, Queensland, South Australia, Tasmania, Victoria, Western Australia and the West Indies.²⁸⁵ In

insurance: continental Europe, 1885–1908', *Research in Economic History*, 23, (2005), pp.177–208.

²⁸⁰ M. Gorsky, B. Harris, A. Hindle, 'Age, sickness and longevity in the late nineteenth century and early twentieth centuries: evidence from the Hampshire Friendly Society', *Social Science History*, 30, 4, (2006), pp.571-600; Gorsky and Harris, 'The measurement of morbidity'; Harris *et al.*, 'Long-term changes in sickness'; Edwards, *et al.*, 'Sickness, insurance and health'; Harris *et al.*, 'Ageing, Sickness and Health'.

²⁸¹ Riley, *Sick, Not Dead*, pp.28; Harris, *The Origins*, pp.81-84.

²⁸² Cordery, *British Friendly Societies*, pp.85-97; Gosden, *Self-Help*, pp.63-90.

²⁸³ Cordery, *British Friendly Societies*, p.146.

²⁸⁴ Harris, *The Origins*, p.82; Broten, 'From sickness to death: the financial viability', pp.14-16.

²⁸⁵ *Directory of the Ancient Order of Foresters Friendly Society for 1916*, p.531 (FHT).

Australasia the Registrars put together extremely detailed information. The annual reports of the Registrar for Victoria included data on the finances of individual branches.²⁸⁶ The 1875 report even collected information on the number of members in 5-year age cohorts. Non-registration was still an issue but registration rates were higher. Cromwell and Green have argued that in Victoria only 4% of total friendly society members were in non-registered societies.²⁸⁷ In New Zealand the information collected by the Registrar was even more detailed (see below), and crucially the reports collected information on the same branches over a number of years.

The first Australasian friendly societies were established in the 1840s and 1850s. From the outset the British affiliated societies were highly successful. **Figures 2.5** and **2.6** show the growth in membership of the largest friendly societies in New Zealand and Victoria. The Oddfellows and the Foresters were dominant in both regions, with the Rechabites and United Ancient Order of Druids close behind. The success of the affiliated orders was partly because branches were highly replicable.²⁸⁸ The proliferation of branches can be considered a grass roots variant of what Belich has termed ‘institutional cloning’.²⁸⁹ In 1842 the Strangers Refuge lodge of the Oddfellows in Nelson was established on the voyage from Liverpool when Thomas Sullivan realised that several of his passengers were fellow members.²⁹⁰ The dispensation was acquired retrospectively.²⁹¹ Rulebooks, registration books, minute books, collection books, and other administrative items were then ordered from the local district, which in turn sent payment to the organisation in Manchester.²⁹² This ‘set-up kit’ approach allowed branches to adopt standardised and up-to-date bookkeeping practices without any learning through trial and error. One witness told the 1874 Royal Commission that ‘branches of a famous order can be started with

²⁸⁶ See successive editions of ‘Statistics of Friendly Societies’, in *The Statistical Register for the colony of Victoria*, 1875-1900, (ML.Q319 2/V).

²⁸⁷ Green and Cromwell, *Mutual Aid*, pp. 216-7.

²⁸⁸ Downing, ‘The Friendly Planet’, pp.394-396.

²⁸⁹ Belich, *Replenishing*, pp.165–120; H. Southall, ‘British artisan unions in the New World’, *Journal of Historical Geography*, 15, 2, (1989), pp.172-173.

²⁹⁰ Olssen, ‘Friendly societies in New Zealand’, p.177.

²⁹¹ For examples of dispensations see ‘Dispensation for the Melbourne Lodge, 1845’ (NBA.Z262, Box 310); ‘Dispensation for the Loyal Yackandallah Lodge, 1863’ (NBA.Z262, Box 308); ‘Dispensation for the Loyal Britannia Lodge, 1851’, (NBA.Z262, Box 30).

²⁹² For example, *The proceedings of the Port Phillip District Annual Moveable Committee, 7th–12th December 1870* (Melbourne, 1871), p.20 (NBA.Z262, Box 374); *MUQR*, April 1882, p.72 (OOA).

one-tenth of the difficulty that goes into the formation of a local club'.²⁹³ Another factor was that officials were very proactive at cloning branches. In 1898 the Grand Master of the Victoria district of the Oddfellows congratulated the order 'on possessing among its members men who are continually on the alert to inaugurate a branch of the order in any of the new settlements which are being formed'.²⁹⁴ Top-level officials regularly undertook tours to aid the foundation of new branches.²⁹⁵ In 1892 district officials travelled from Sydney to coordinate the establishment of two Foresters courts in Kembla and Croyden.²⁹⁶ Lodge officials also helped form new branches. On December 23rd 1856 the Loyal Ballarat Lodge paid £20 in travel expenses for delegates to attend the opening of new lodges.²⁹⁷

²⁹³ *Fourth report of the commissioners, Part I* [C.961], p.xxxv.

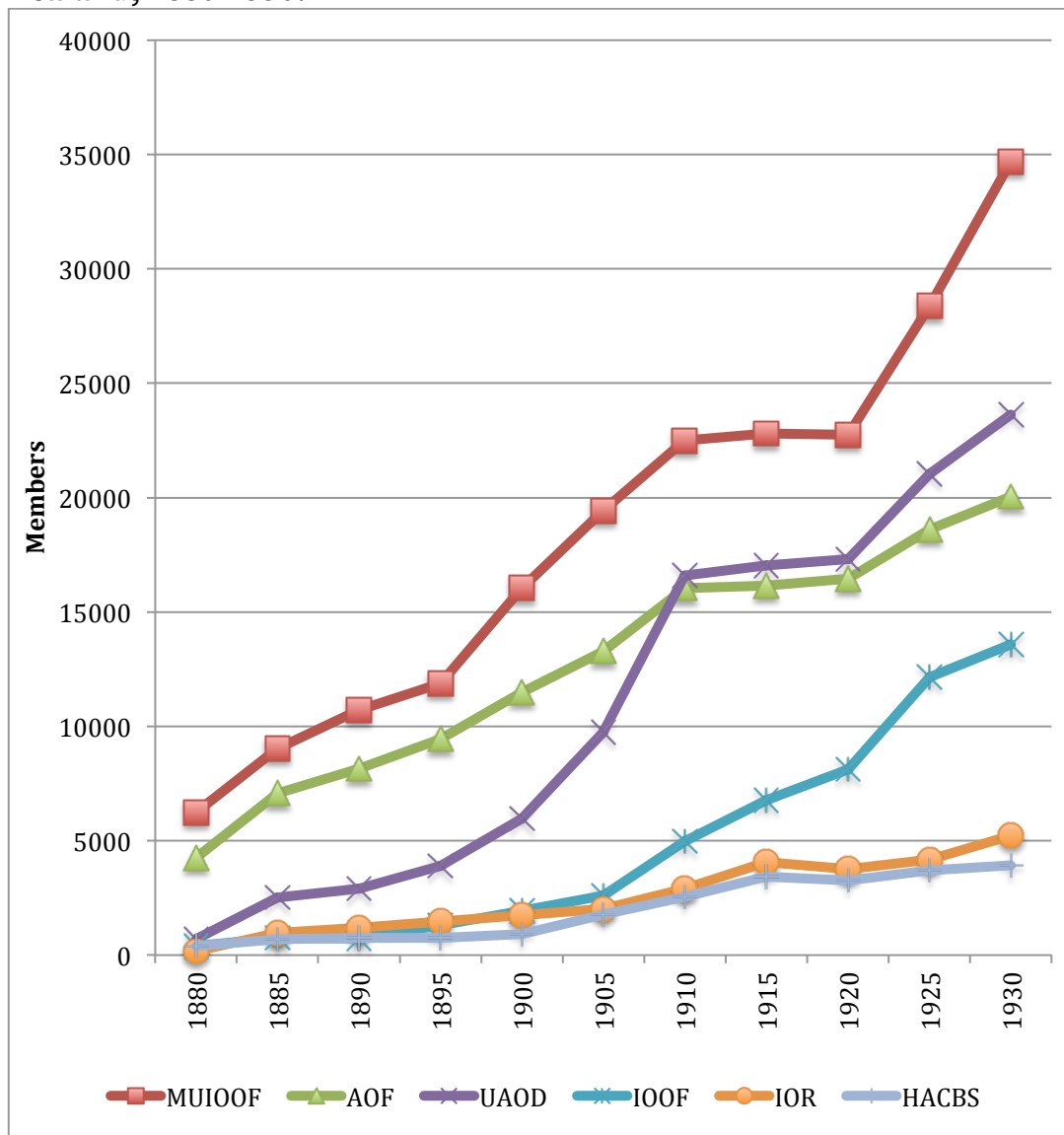
²⁹⁴ *MUIOOF in Victoria, Proceedings of the Grand Annual Moveable Committee, 15th–18th March 1898* (Melbourne, 1898), p.5 (NBA.Z227, Box 430).

²⁹⁵ *Report of the Quarterly Committee of the NSW MUIOOF, April 1903* (Sydney, 1903), p.11 (ML.334/706.2).

²⁹⁶ *Minutes of Proceedings of the 45th Annual delegates meeting of the Sydney District Ancient Order of Foresters, 8h–10th March 1893* (Sydney, 1893), p.22 (ML.334.7 A).

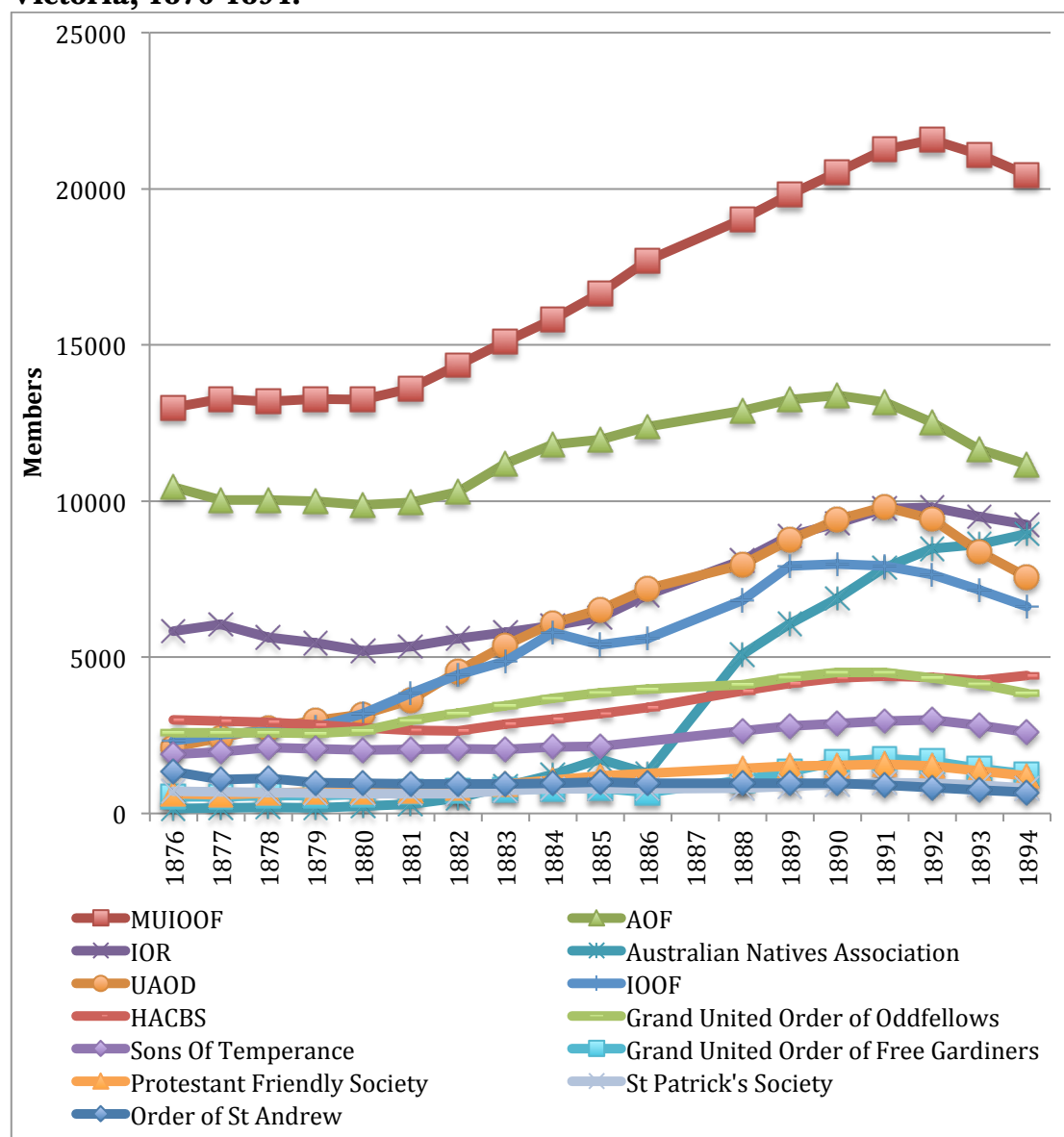
²⁹⁷ 'Account book for the Loyal Ballarat Lodge' (NBA.Z190, Box 26).

Figure 2.5: Membership of the six largest friendly societies in New Zealand, 1880-1930.



Source: Carlyon, 'Friendly Societies in New Zealand, p.35.

Figure 2.6: Membership of the thirteen largest friendly societies in Victoria, 1876-1894.



Note: The annual statistics of friendly societies in Victoria stopped publishing the number of members in individual societies in 1894. *Source:* Taken from successive volumes of 'Statistics of Friendly Societies', in *The Statistical Register for the colony of Victoria, 1876-1895*, (ML.Q319 2/V).

One obvious issue with focusing on New Zealand is that it was a very different place to Victorian Britain, and therefore any findings may not be generalisable. A number of responses can be made. First and foremost the question is not whether New Zealand was different, but whether friendly societies operated along different lines in New Zealand, and whether they succeeded for different reasons. It is probably the case that lower levels of urbanisation and industrialisation inhibited the growth of

friendly societies.²⁹⁸ However the same ‘internalist’ argument that has been made for Britain and the US is equally valid for New Zealand – namely that friendlies succeeded whereas commercial insurers were unable to because the branch system helped overcome the problems of moral hazard and adverse selection. Second, although New Zealand was a very different place to Victorian Britain it was similar to other countries where friendly societies were successful, in particular other settler societies like the US and Australia.²⁹⁹ Finally, the friendly societies in New Zealand functioned in much the same way as in Britain, Australia, and the US. At the end of the nineteenth century British affiliated societies had a dominant market share across Australasia (see **tables 2.4 to 2.6**). There were some indigenous societies, like the Australian Natives Association and the New Zealand Independent Order of Good Templars, but the vast majority of members were in British based organisations like the Oddfellows, the Foresters and the Rechabites. Branches of these orders were governed by the same rules governing those in Britain, and in organisational terms they were almost indistinguishable.³⁰⁰ For instance, Carlyon has demonstrated that New Zealand societies adopted the same techniques to monitor sickness claims and screen members as societies in Britain.³⁰¹

²⁹⁸ Thomson, *A world*, pp.36-51; and Fairburn, *The Ideal Society*, pp.178-179.

²⁹⁹ J. Fogarty, ‘The comparative method and the nineteenth century regions of recent settlement’, *Australian Historical Studies*, 19, 76, (1981), pp.412-429; D. Denoon, *Settler Capitalism: the dynamics of dependent development in the Southern Hemisphere* (Oxford, 1983); Belich, *Replenishing*.

³⁰⁰ Olssen, ‘Friendly Societies in New Zealand’; Thomson, *A world*, pp.36-51; Carlyon, ‘New Zealand Friendly Societies’.

³⁰¹ Carlyon, ‘New Zealand Friendly Societies’, pp.136-141.

Table 2.4: List of registered friendly societies in New Zealand in 1899.** Indicates British based international society.*

| Society | Number of members | Per cent of members | Number of branches | Per cent of branches |
|--|--------------------------|----------------------------|---------------------------|-----------------------------|
| MUIOOF * | 13,206 | 39.0 | 153 | 28.9 |
| IOOF | 1,473 | 4.3 | 31 | 5.8 |
| National IOOF | 344 | 1.0 | 2 | 0.4 |
| British United Order of Oddfellows * | 94 | 0.2 | 1 | 0.2 |
| AOF * | 10,312 | 30.5 | 118 | 22.3 |
| Ancient Order of Shepherds * | 51 | 0.1 | 1 | 0.2 |
| UAOD * | 4513 | 13.3 | 58 | 11 |
| IOR * | 1537 | 4.5 | 37 | 7 |
| Sons of Temperance * | 775 | 2.2 | 10 | 1.9 |
| HACBS * | 631 | 1.8 | 22 | 4.2 |
| Protestant Alliance * | 668 | 2.0 | 12 | 2.3 |
| Railway Engineers Benefit Society | 185 | 0.5 | 2 | 0.4 |
| Misc. Friendly Societies | | | 12 | 2.3 |
| Working Men's Clubs | | | 14 | 2.6 |
| New Zealand Independent Order of Good Templars | | | 55 | 10.4 |

Source: Friendly Societies: Report of the Registrar for the Year 1899 in AJHR, Session I, section H-1, (1900) pp.6-10, 22-28.

Table 2.5: List of registered friendly societies in Victoria in 1894.** Indicates British based international societies.*

| Society | Number of members | Per cent of members | Number of branches | Per cent of branches |
|---|--------------------------|----------------------------|---------------------------|-----------------------------|
| MUIOOF * | 20462 | 25.3 | 203 | 18.88 |
| AOF * | 11390 | 14.1 | 125 | 0.09 |
| Grand United Order of Oddfellows * | 3852 | 4.8 | 60 | 5.58 |
| IOOF | 6628 | 8.2 | 74 | 6.88 |
| UAOD * | 7572 | 9.4 | 95 | 8.83 |
| IOR * | 9244 | 11.4 | 185 | 17.20 |
| Sons of Temperance * | 2598 | 3.2 | 61 | 5.67 |
| HACBS * | 4418 | 5.5 | 61 | 5.67 |
| Order of the Saint Andrew * | 677 | 0.8 | 18 | 1.67 |
| Order of the Saint Andrew, Scots Constitution * | 270 | 0.3 | 6 | 0.55 |
| Grand United Order of Free Gardiners * | 1254 | 1.6 | 23 | 2.13 |
| St Patrick Society * | 816 | 1.0 | 10 | 0.83 |
| Protestant Alliance * | 1193 | 1.5 | 29 | 0.09 |
| Australian Natives Association | 8957 | 11.1 | 111 | 2.69 |
| Ancient Order of Shepherds * | 33 | 0.0 | 1 | 10.32 |
| German Sick and Relief society | 137 | 0.2 | 1 | 0.09 |
| St Mary's Total Abstinence Benefit Society | 55 | 0.1 | 1 | 0.09 |
| United Labourers' Friendly Society | 19 | 0.0 | 1 | 0.09 |
| Congregational ministers Provident Society | 28 | 0.0 | 1 | 0.09 |
| Irish National Foresters * | 572 | 0.7 | 8 | 0.09 |
| Melbourne Tramway Benefit Society | 706 | 0.9 | 1 | 0.74 |

Source: 'Statistics of Friendly Societies for the year 1894 with introductory report', in The Statistical Register for the colony of Victoria, 1895 (Melbourne, 1895), (ML.Q319 2/V).

Table 2.6: List of registered friendly societies in New South Wales in 1892.

** Indicates British based international societies.*

| Society | Number of members | Per cent of members | Number of branches | Per cent of branches |
|--|--------------------------|----------------------------|---------------------------|-----------------------------|
| MUIOOF* | 18777 | 26.66 | 157 | 20.00 |
| Grand United Order of Oddfellows * | 11197 | 15.90 | 117 | 14.90 |
| IOOF* | 5575 | 7.91 | 69 | 8.79 |
| National IOOF | 159 | 0.23 | 1 | 0.13 |
| AOF* | 4297 | 6.10 | 40 | 5.10 |
| Royal Foresters* | 1882 | 2.67 | 30 | 3.82 |
| Irish National Foresters* | 215 | 0.31 | 4 | 0.51 |
| UAOD* | 4440 | 6.30 | 53 | 6.75 |
| Grand United Order of Free Gardiners * | 1905 | 2.70 | 29 | 3.69 |
| IOR* | 1889 | 2.68 | 60 | 7.64 |
| Sons of Temperance * | 5001 | 7.10 | 75 | 9.55 |
| Protestant Alliance* | 6496 | 9.22 | 56 | 7.13 |
| Loyal Provident Benefit Society | 1095 | 1.55 | 23 | 2.93 |
| HACBS* | 2406 | 3.42 | 37 | 4.71 |
| Australian Holy Catholic Guild | 1932 | 2.74 | 13 | 1.66 |
| Misc. Friendly societies | 3177 | 4.51 | 21 | 2.68 |

Source: New South Wales Statistical Register for 1892, and previous years (Sydney, 1894), p.598. Note: Before 1906 the statistical register of New South Wales only recorded information on friendly societies in 1892.

(a) Data used

Between 1878 and 1886 the annual reports of the Registrar of friendly societies in New Zealand included detailed branch level statistics based on returns made by individual societies.³⁰² These tables contain information on four broad fields:

- General information (number of members, entrants, exits, year founded, location)
- Morbidity and mortality (deaths, number of sick members over the year, number of days sickness claimed)
- Finances of the branch (total funds, expenditure, receipts, investments)
- Age structure of membership (number of members in each 5 year age cohort between 20 and 70, number married)

The statistical tables are very finely grained. For example, the total sickness experience of each branch was disaggregated into episodes lasting under 6 months, between 6 and 12 months and over 12 months. In total the returns asked branches for 75 pieces of information. In contrast the directories of the Foresters had only eight fields.

As in Britain registration was incentivised. The 1877 Act granted branches exemption from stamp duty (and some other charges) and indemnity against certain legal actions. The Registrar also played a supportive role, for example compiling statistics for registered branches and preparing model account keeping forms. In 1880 approximately 250 independent societies and branches were registered but the Registrar noted that he knew of the existence of at least 100 small-unregistered societies.³⁰³ Therefore whilst the tables in the annual reports cover a large number of societies, there was probably a selection effect that will bias the results. Undoubtedly

³⁰² *Friendly Societies: Report of the Registrar for the Year 1885*, 'Statistics for 1884', in AJHR, Session I, section H-01a, (1886) pp.1-57; *Friendly Societies: Report of the Registrar for the Year 1884*, 'Statistics for 1883', AJHR, Session I, section H-5, (1885), pp.1-51; *Friendly Societies: Report of the Registrar for the Year 1883*, 'Statistics for 1882', in AJHR, Session II, section H-1, (1884), pp.1-58; *Friendly Societies: Report of the Registrar for the Year 1882*, Statistics for 1881, in AJHR, Session I section H-1, (1883) pp.1-44; *Friendly Societies: Report of the Registrar for the Year 1881*, 'Statistics for 1880', in AJHR, Session I, section H-2, (1882) pp.2-46; *Friendly Societies: Report of the Registrar for the Year 1880*, 'Statistics for 1879', in AJHR, Session I, section H-7, (1881) pp.2-50; *Friendly Societies: Report of the Registrar for the Year 1879*, 'Statistics for 1877', in AJHR, Session II, section H-12, (1879), pp.1-15; Volumes of AJHR accessed 12/06/2015 at [http://atojs.natlib.govt.nz/cgi-bin/atojs?a=p&p=home&e=-----10--21---bySH---0-AJHR_1881_I_AZz-E-].

³⁰³ Thomson, *A world*, pp.37-8.

the Registrar's reports focused on the better-run and larger societies. Methodologically there is no way around this issue given that those societies that never registered left almost no trace. Indeed the Registrar's comments were as good as guesswork. However given that unregistered societies tended to be small local level organisations the sources employed here capture the experience of the majority of members.

Converting the tables in the reports into useable data involved dropping a number of observations. The tables for 1877 and 1878 were missing crucial information on the age structure of branches and were excluded. In some instances branches failed to fill out complete returns. In total 340 entries were excluded because of missing information. Pooling together the tables from 1879 to 1884 generated 1,161 observations. Using branch name I was able to link up societies across the different reports to create a panel data set. Unfortunately many branches failed to make returns every year, so the resulting panel was unbalanced – meaning that some branches appear more frequently than others. The unbalanced panel only included branches that appeared more than once in the reports, meaning a further 50 observations were dropped (leaving 1,101). Units that appear more frequently will exert a disproportionate influence on the results of any analysis. Three strongly balanced panels were compiled that only included branches that appeared in every annual report between 1880 and 1884 (475 observations), 1881-1884 (556 observations) and 1882-1884 (606 observations).

The obvious consequence of selecting branches that frequently filled in complete returns is that this probably eliminates poorly run branches from the analysis. This may bias the results and overestimate branch efficacy. One response is that the results below suggest that branches were not as effective as claimed in the wider literature, and therefore, if anything, overestimating branch efficacy would only confirm the main finding. Second, the failure of branches to make returns was probably a consequence of short-term fluctuations in the diligence of the officers responsible for making returns. If these fluctuations in administrative competence were random then the branches that failed to make returns every year may not have been that different to those that filled out every annual return. In the absence of more detailed branch level information it is impossible to know if this was the case. To

account for this data compilation issue I have used both the pooled data and the strongly balanced data.

The majority of observations in the data sets are for branches of the large affiliated orders, like the Oddfellows and the Foresters. In total 88.6% of observations in the unbalanced panel and 89.6% in the strongly balanced panel of 1882-1884 were for affiliated societies.³⁰⁴ This is encouraging; given that the affiliated societies were the most effectively administered then these figures suggest that better functioning societies were not disproportionately more likely to make regular returns.

Age is the single most important determinant of morbidity.³⁰⁵ To make a meaningful statement about what influenced sickness claims it is necessary to control for the age structure of each society. In 1877 and 1882 the Registrar computed age specific morbidity rates. As **figures 2.7** and **2.8** show, the incidence and the total prevalence of morbidity increases dramatically from 50-55. This was a trend common to friendly societies around the world. **Figure 2.9** displays age morbidity curves compiled from a number of studies of friendly societies. Due to the distribution of morbidity rates a small number of old individuals could exert a disproportionate effect on aggregate morbidity. **Figure 2.10** shows the percentage of total sickness prevalence (in days) broken down into periods of duration. The vast majority of episodes lasted under 6 months, but cases lasting over 12 months were more important than episodes lasting between 6 to 12 months. This reflects the fact that societies often had a small number of old members who were almost perpetually sick. The annual reports listed the number of members in each 5-year age cohort. **Figure 2.11** demonstrates that the majority of members were between 20 and 45. In all of the regressions that follow I have used the proportion of members in each age cohort as a set of controls.

³⁰⁴ Defined as the MUIOOF, the IOOF, AOF, UAOD and IOR.

³⁰⁵ Riley, *Sick, Not Dead*, pp.293-301.

Figure 2.7: Percentage of members sick per annum at each age, New Zealand 1877-1882.

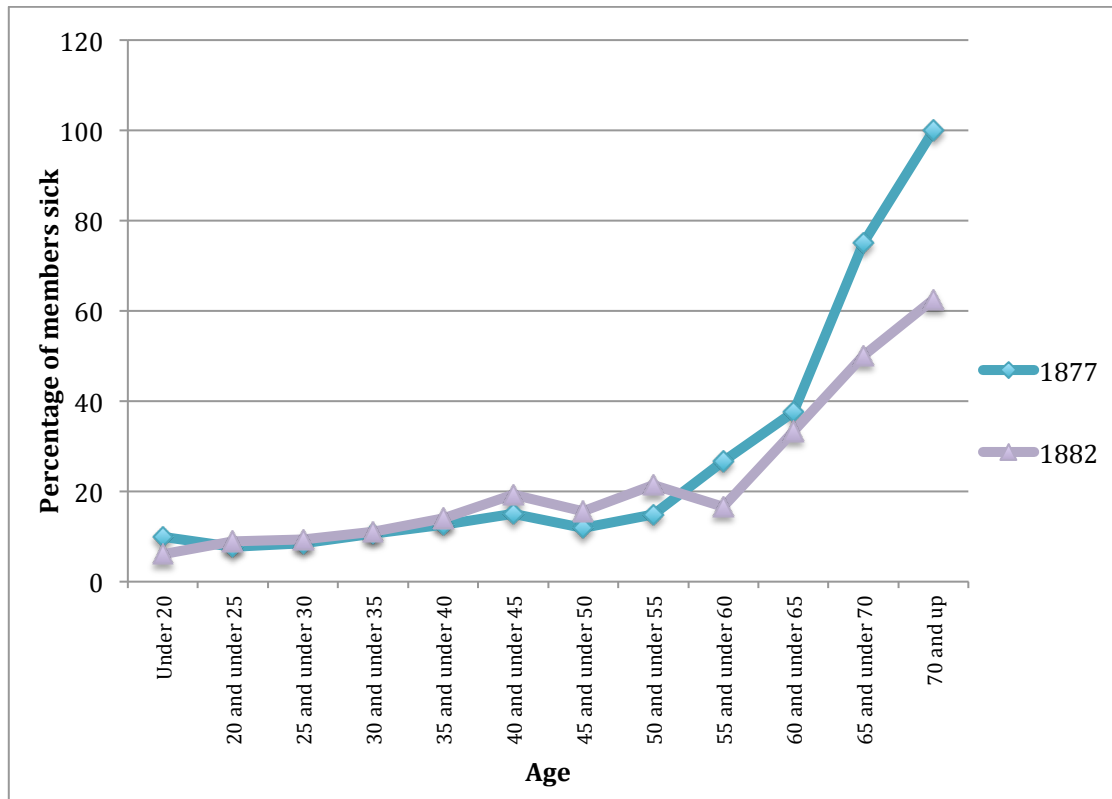
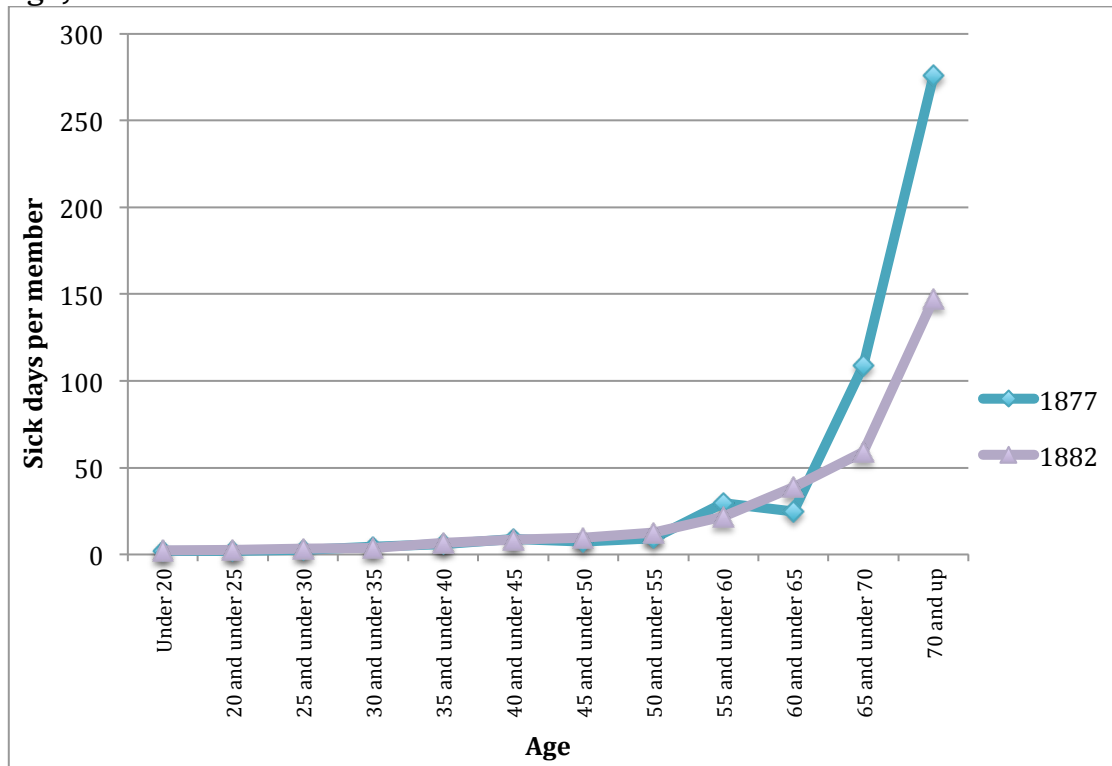
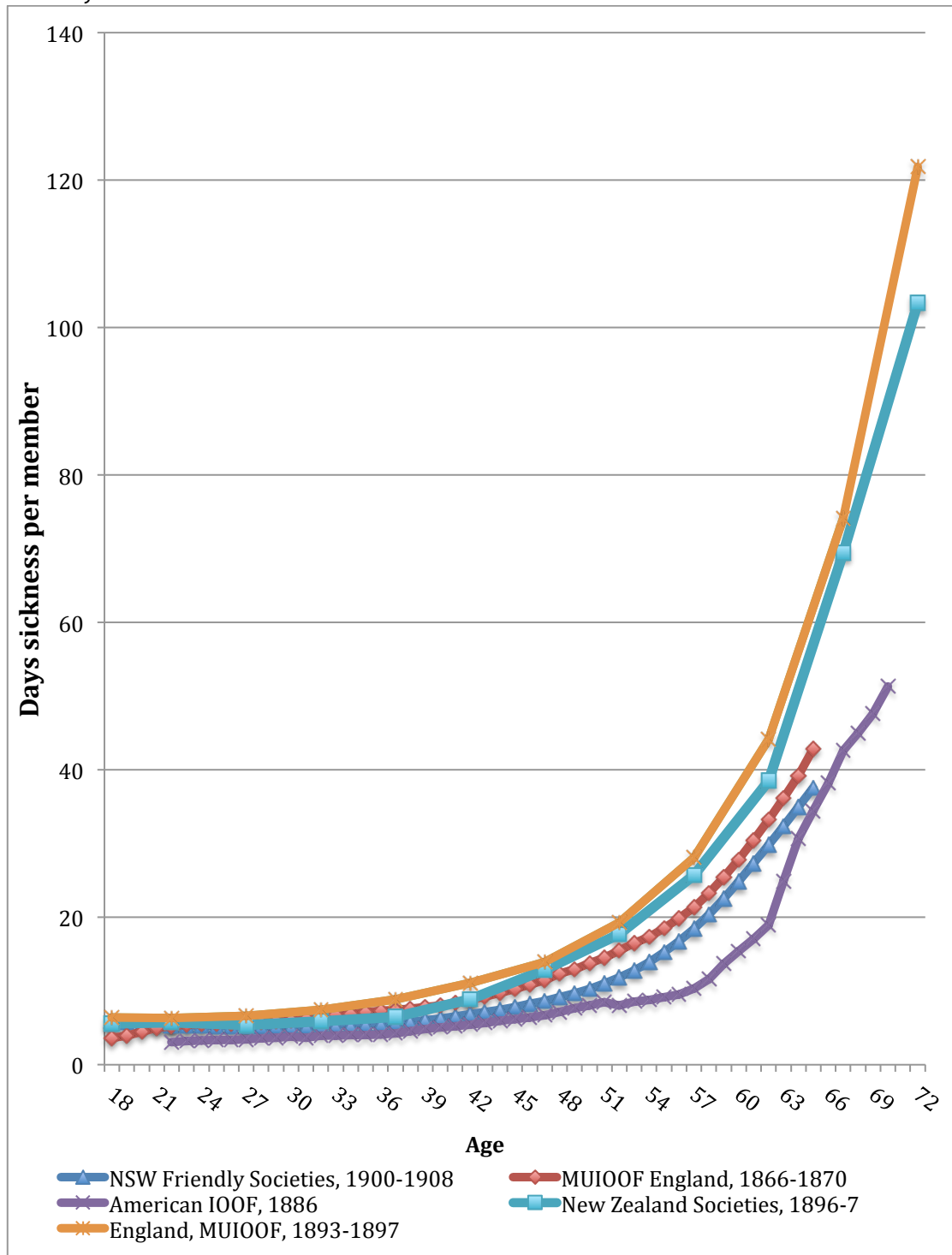


Figure 2.8: Number of days sickness per member per annum at each age, New Zealand 1877-1882.



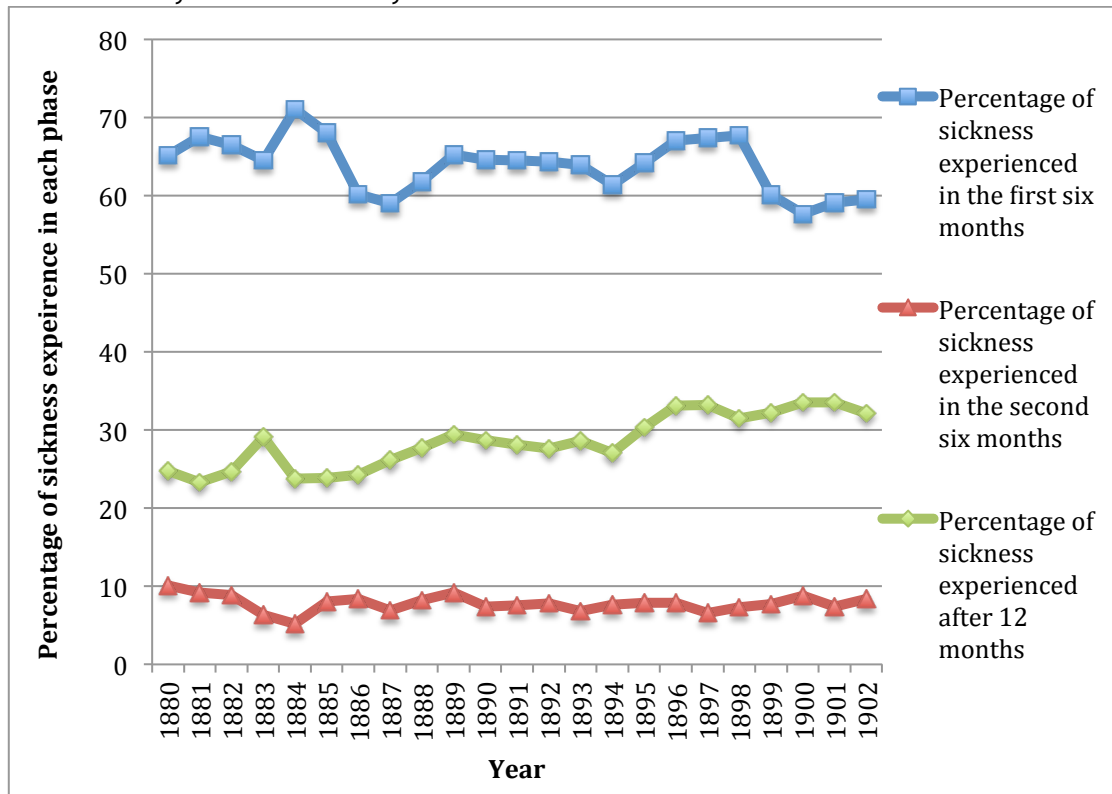
Source: For 2.2 and 2.3 see *Friendly Societies: Report of the Registrar for the Year 1884*, pp.xvi-xv; and *Friendly Societies: Report on the sickness, mortality and other contingencies experienced during the quinquennium ended 31st December 1877*, in AJHR, Session I, section H-7a, (1881), p.8.

Figure 2.9: Age specific morbidity curves around the English-speaking world, 1866-1908.



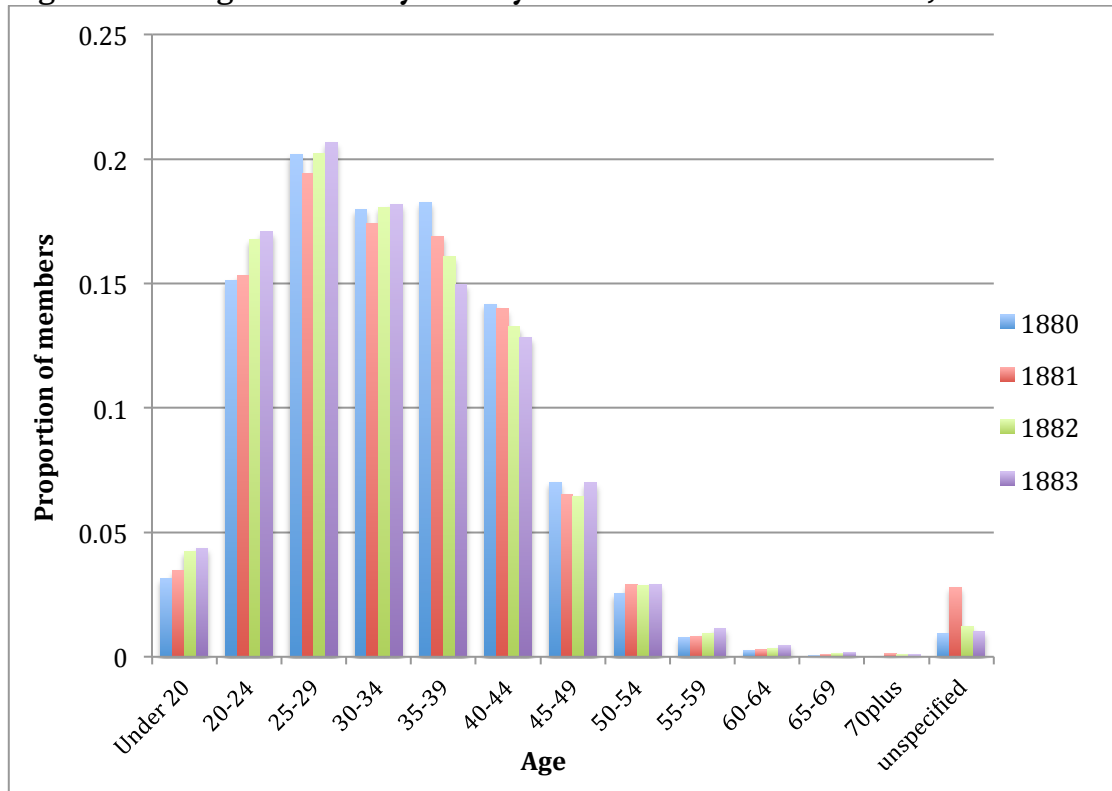
Source: T.A. Ross, *Odd Fellowship: its history and manual* (New York, 1888), p.131; J.B. Trivett, *New South Wales Friendly Societies Experience, 1900-1908: Rates of Mortality, Sickness and Secession, Deduced Tables Relating to Life and Contingencies* (Sydney, 1910); *Friendly Societies: Report of the Registrar for the Year 1903*, in *AJHR*, Session I, section H-1, (1904), pp.7-10; Watson, *An Account*, pp.138-141.

Figure 2.10: Percentage of total sickness experience in different phases of sickness, New Zealand, 1880-1902.



Source: *Friendly Societies: Report of the Registrar for the Year 1887*, in AJHR, Session I, section H-17, (1888) p.8; *Friendly Societies: Report of the Registrar for the Year 1899*, in AJHR, Session I, section H-1 (1900), p.5; *Friendly Societies: Report of the Registrar for the Year 1903*, in AJHR, Session I, section H-1 (1904), p.14.

Figure 2.11: Age of friendly society members in New Zealand, 1880-1883.



Source: See footnote 302 page 118.

Given the importance of age structure it is prudent to remove observations where any information on age is missing or where it seems likely that there were errors in the enumeration. Any branch that listed members in the ‘age unspecified’ column were dropped. In addition I checked for inaccuracies by adding the total number of members in the age cohort columns and comparing this to the figure given for the members at the end of the year (given that the age cohorts were filled in on the 31st December). I dropped the observation if the difference was larger than 2%. This reduced the number of observations in the balanced panel for 1882-1884 to 549.

This chapter examines four broad effects on sickness claiming. Firstly ‘claims awareness’. Since branches were self-governing organisations, members would have been aware of the financial position of the branch. In the Loyal Victory Lodge of the Oddfellows in Hull the members scrutinised income and expenditure nearly every meeting.³⁰⁶ It is plausible members claimed more in good years, or that branches sanctioned more claims.³⁰⁷ In 1892 Jacques Bertillon argued that some societies ‘attach[ed] less importance to their regulations than to the state of their till’. On the other hand the actuary GH Ryan thought that ‘when a society boasted of being in a condition of great prosperity, the tendency amongst its members was to claim more sick pay than might otherwise be the case’.³⁰⁸ The variables ‘capital per member’ and ‘balance of pay per member’, in the previous year, test for these effects.

Secondly, what was the effect of social cohesion? Strong social bonds between members encouraged cooperation. This may have had the effect of making ‘sickness thresholds’ more robust; individuals were probably less likely to claim if their close friends were expected to foot the bill. As the British Registrar, John Ludlow, told a Select Committee in 1885 ‘a man’s selfishness is to some extent checked by *spirit de corps* or by the pleasure of seeing his society prosperous and so forth.’³⁰⁹ Branch size and the number of admissions per member test for this effect; the assumption being that in larger and growing branches members were more anonymous, making

³⁰⁶ Source name followed by item names in the online archives: ‘Minute Books of the Loyal Victory Lodge, Hull, 1875-1894’, (‘Minute Books – Hull – 1877-1894’, parts 1-3) (OOA).

³⁰⁷ Murray has suggested as much, Murray, *The Origins of American Health Insurance*, p.173.

³⁰⁸ Harris *et al.*, ‘Sickness Insurance’, p.95.

³⁰⁹ *Ibid.*, p.94.

cooperation more fragile.³¹⁰ Watson argued that ‘the efficacy of supervision depends, to a great extent, upon the knowledge of both the circumstances and the dispositions of the members which the offices are able to acquire – and this was likely to decline as branches grow in size’.³¹¹ It is difficult to determine whether more socially cohesive branches experienced lower claims because of higher levels of good will (cognitive social capital) or because monitoring was more effective.³¹² To try to isolate the impact of monitoring I included a proxy for the tendency of a society to punish members – measured by the number of expulsions per member. Branches with a propensity for punishment might have deterred shirking. On the other hand punishment might have created internal friction within the group, eroding goodwill.³¹³ Were claims rates lower in more convivial branches? Some branches were ‘dry’, meaning that they were temperance organisations. On the one hand this probably had a positive effect on the health of members. However alcohol was a drug used to lubricate cooperation. ‘Lodge nights’ were important bonding occasions. It is possible members of ‘dry’ branches were less socially integrated.

In Ratcliffe’s study of the British Oddfellows urban lodges had higher morbidity and mortality rates than rural lodges.³¹⁴ In New Zealand there were only four settlements that counted as urban: Christchurch, Auckland, Wellington and Dunedin, although of course even these settlements were tiny by British standards.³¹⁵ On the British evidence we might suppose that rural branches would have been healthier places. However it was difficult to operate a friendly society if members were geographically dispersed. Rural branches might have found it harder to monitor claims and encourage attendance at meetings. Miles Fairburn has argued that prior to 1900 rural New Zealand was an anarchic place with very low levels of community cohesion precisely because individuals lived in miniscule settlements separated by large distances.³¹⁶

³¹⁰ Guinnane, *et al.*, ‘The Costs and Benefits’ pp.39-40.

³¹¹ Harris, *et al.*, ‘Sickness Insurance’, p.96

³¹² M. Olson, *The Logic of collective action: public goods and the theory of groups* (Cambridge, Mass, 1965), pp.22-35; H. Hamburger, *et al.*, ‘Group Size and Cooperation’, *Journal of Conflict Resolution*, 19, 3, (1975), pp.503-531; D. Balliet, ‘Communication and Cooperation in Social Dilemmas: A Meta-Analytic Review’, *Journal of Conflict Resolution*, 54, 1, (2010), pp.43, 51–2.

³¹³ A dynamic observed in behavioural experiments E. Ostrom, *et al.*, ‘Covenants With and Without a Sword: Self-Governance is Possible’, *The American Political Science Review*, 86, 2, (1992), pp.404-417.

³¹⁴ Ratcliffe, *Independent Order of Odd Fellows, Manchester Unity*, pp.6-11

³¹⁵ *The New Zealand Year Book* (London, 1887), pp.762-767.

³¹⁶ Fairburn, *The Ideal Society*, pp.177-8, 183-4.

Third, what were the effects of different governance practices? The age of the branch gauges the impact of experience. Forming a successful society took time, and as a society aged the members gained knowledge and expertise. On the other hand older societies had older members. The variable ‘management costs per member’ tests whether societies that spent more on administration were better governed. Alternatively spending more on management might indicate that the society was inefficient. High management costs could have irked members, eroding good will and increasing claims. As discussed, there were a number of administrative advantages to belonging to an affiliated society. District authorities supported branches in their set up phase and offered continued assistance thereafter – for example, adjudicating disputes between members, providing societies with information and guidance, and offering financial support if needed.

Finally, did members make cost-benefit calculations when deciding whether to claim? More specifically, did members claim more if they stood to gain more in benefits, and if they had paid higher contributions? The actuary Alfred Watson argued that sickness claims increased over the late nineteenth century, in part, because the introduction of graduated contributions pushed up the cost of participation for many members. Watson believed that individuals were more likely to claim if their contributions increased.³¹⁷

Branches varied considerably in size and funds. The majority of branches in the balanced 1882-1884 panel were between 20 and 100, but there was a long tail and some branches had over 200 members (**figure 2.12**). Similarly some branches were very wealthy, with a large reserve of funds per member, although many younger branches were still in a vulnerable phase where even a small increase in claims could have destroyed the society (**figure 2.13**). The Pearson correlation coefficient for capital per member and branch age is 0.6811 (significant at the 1 per cent level), indicating a positive association. Consequently young societies were enthusiastic recruiters, seeking to bring in new members to increase the income of the society and reduce the likelihood of collapse (see **figure 2.14**).

³¹⁷ Harris, *et al.*, ‘Sickness Insurance’, p.94.

Figure 2.12: Histogram of branch size in sample of branches, New Zealand 1882-1884.

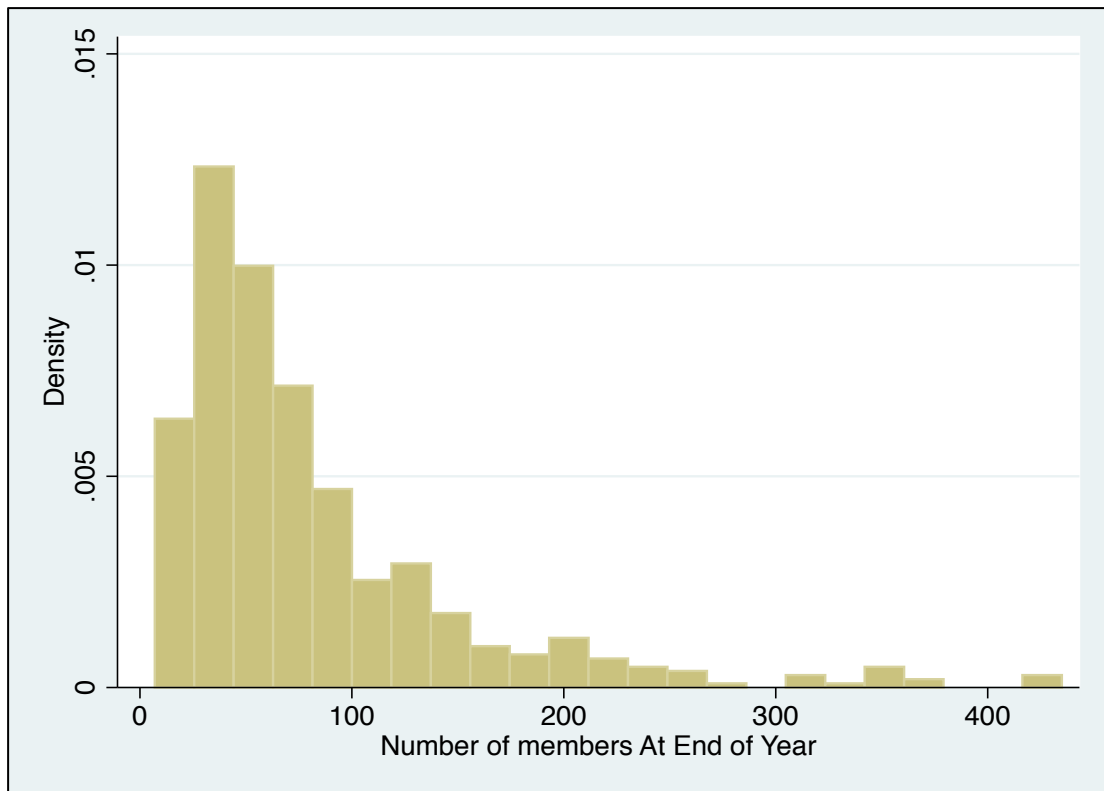


Figure 2.13: Histogram of capital per member (CapPerMemDEC) in sample of branches, New Zealand 1882-1884.

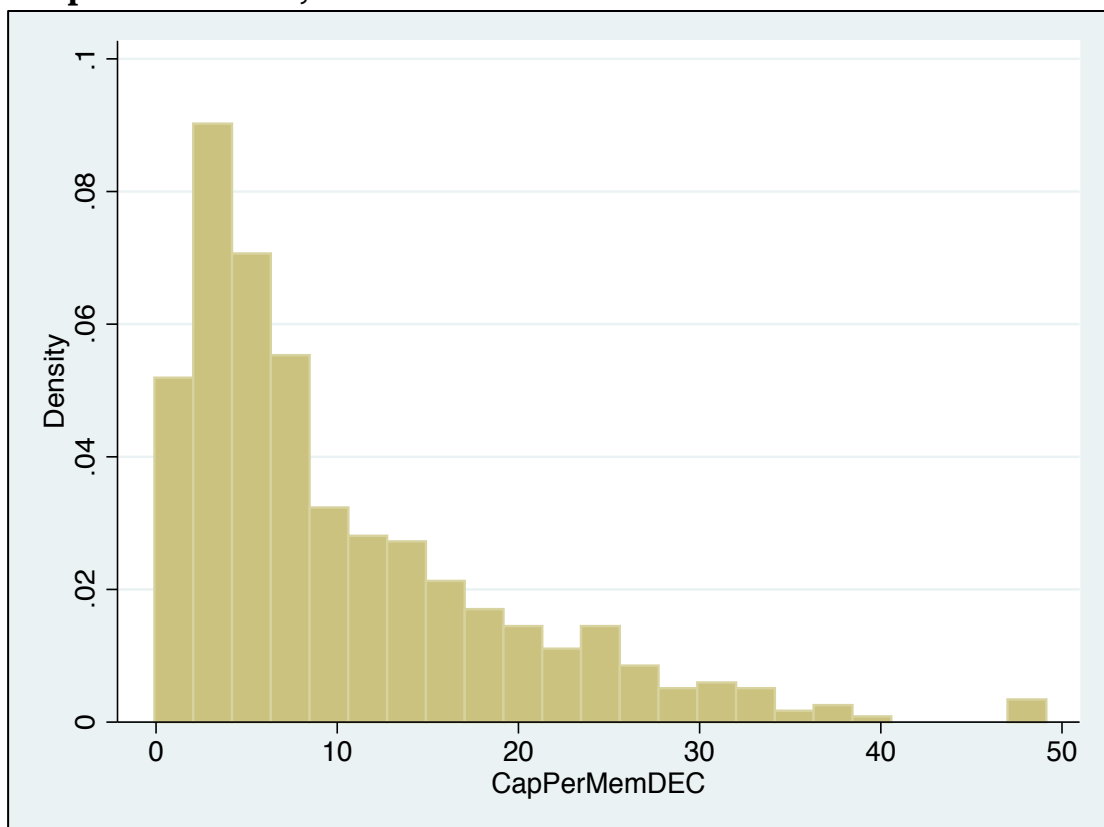
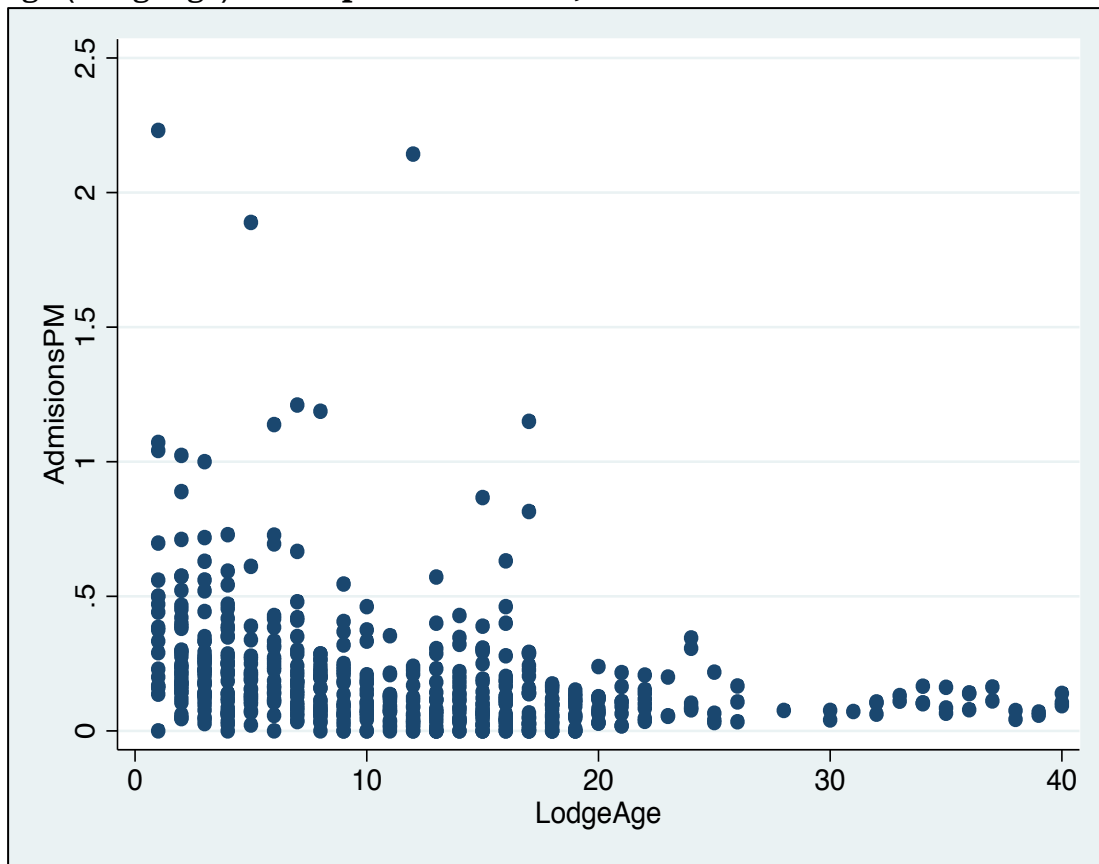


Figure 2.14: Scatter plot of initiation rate (AdmissionsPM) and branch age (LodgeAge) in sample of branches, New Zealand 1882-1884.



There was also considerable variation between branches in terms of the experience of the average member. Contributions per member clustered between £2 and £4 a year (**figure 2.15**). In some affiliated societies branches were, in theory, free to set their own contribution and benefit rates, but in effect most used scales set by the order as a whole. Benefits were much more clustered than contributions (**figure 2.16**). The vast majority of branches paid between 10p-15p per day sickness (82.41% of branches). Sickness rates also varied a great deal (**figures 2.17 and 2.18**), although within a relatively narrow band of between 5 and 20 days per member per annum.

Figure 2.15: Histogram of contributions per member (excluding entrance fees) in sample of branches (in £), New Zealand 1882-1884.

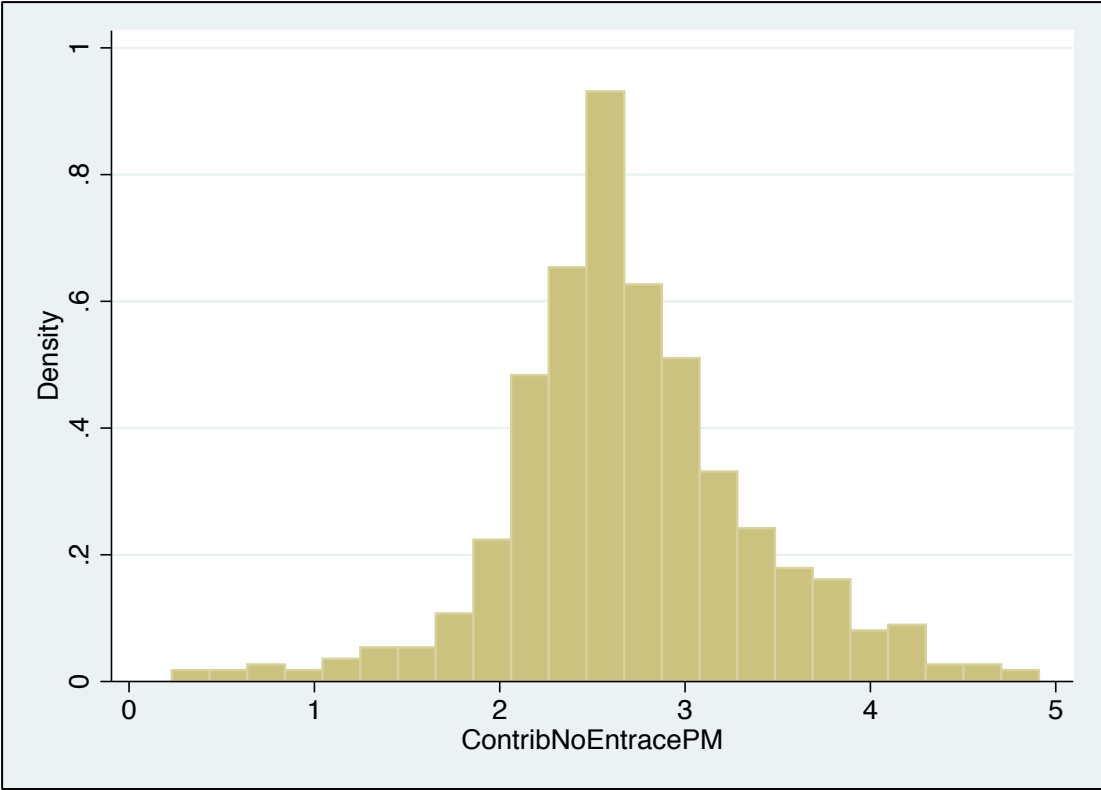


Figure 2.16: Histogram of sick pay per sick day (in £) in sample of branches, New Zealand 1882-1884.

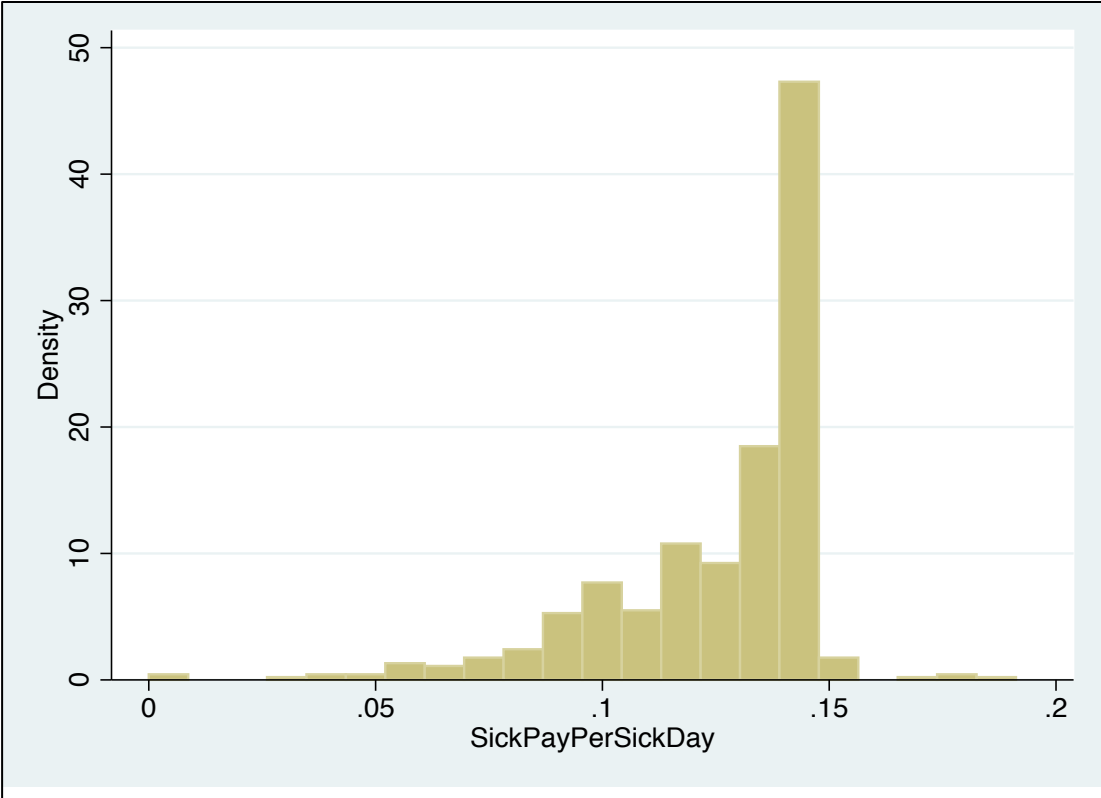


Figure 2.17: Histogram of sick days per member in sample of branches, New Zealand 1882-1884.

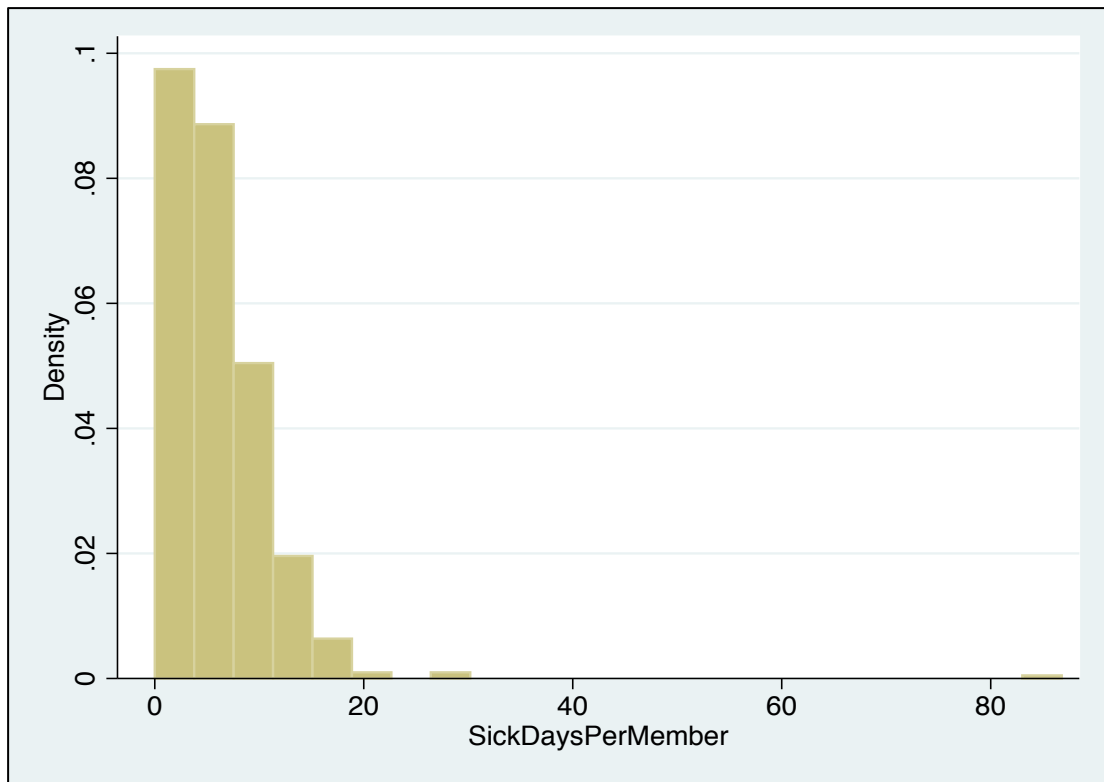
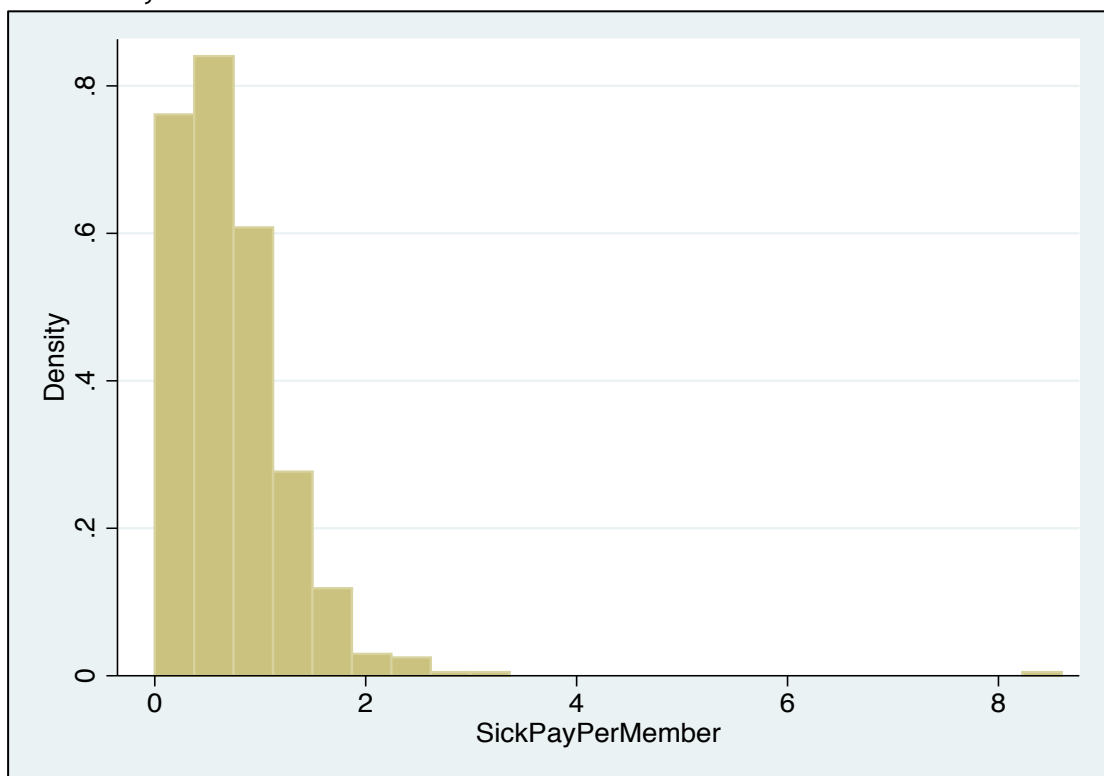


Figure 2.18: Histogram of sick pay per member (in £) in sample of branches, New Zealand 1882-1884.



Note: In figure 2.17 and 2.18 'Sick Pay Per Member' is measured per annum.

(b) Analysis and results

Regression analysis was used to identify the impact of various variables on branch level sickness claims. ‘Sick days per member’ is a measure of the overall prevalence of morbidity (or ‘work absence’). ‘Sick members per member’ measures the incidence of morbidity in a society. These measures have been used as dependent variables in similar econometric studies.³¹⁸ **Table 2.7** lists the independent variables and **tables 2.8** and **2.9** detail some descriptive statistics. Results are presented in **tables 2.10, 2.11** and **2.12**. In all the models the proportion of individuals in each 5-year age cohort were included to control for the age structure of the branch. The dates included in the analysis were varied because between 1879-1882 the data was of a lower quality than between 1882-1884, with more missing information. All the coefficients have been standardised, so that the figures represent the change in the dependent variable in standard deviations as a consequence of a one standard deviation increase in the independent variable.

The following models use a combination of ordinary least squared (OLS) and fixed effect models. The OLS method will be biased if there are branch-specific effects that influence the variables. For example, because the OLS method treats the data as a series of cross sections, we might conclude that higher benefit scales were associated with higher claims rates. However it could be that better governed societies were able to offer higher benefits and particularly sickly individuals joined these societies. In this instance there are omitted branch-specific characteristics that bias the results. Regressions 2, 4, 7, 8, 11 and 12 use branch fixed effects to control for such branch-specific dynamics. This tool exploits within-branch variation over time because across-branch variation might reflect an omitted variable bias. In practice this simply entails including a series of branch dummies. To control for year specific effects that also might bias the results, such as an economic downturn pushing up claims in all societies, regressions 6, 8, 10 and 12 include year dummies. Year dummies were not included when restricting the analysis to 1882-1884 because there were too few years to make the results meaningful.

³¹⁸ Guinnane, *et al.*, ‘The Costs and Benefits’, p.41; Guinnane and Streb, ‘Moral Hazard’, pp.93, 96-7; Murray, *Origins of American Health Insurance*, pp.190-196.

Table 2.7: Variables included in a data set of a sample of branches operating in New Zealand between 1879 and 1884.

| Variable Name | Description |
|------------------------|--|
| Sick Days per member | Total sick days divided by total members at the start of the year |
| Sick Member per member | Sick members divided by total members at the start of the year |
| Branch age | Years since starting date |
| Management Costs PM | Management costs divided by members |
| Cap PM | Total capital at the start of the year divided by number of members |
| Sick Pay | Total sick pay distributed divided by total sick days |
| Contributions PM LAG | Total contributions directly from members divided by number of members, lagged by one year |
| Members | Total number of members at the start of the year |
| BOP PM | Balance of pay (total income – total expenditure) divided by total members in January |
| Admissions PM LAG | Total new admissions to the branch divided by members, lagged |
| Expulsions PM LAG | Total expulsions from the branch divided by members, lagged |
| Temperance | Dummy – was the branch a non-drinking branch? |
| Affiliated | Dummy – was the branch in a larger affiliated order? |
| Urban | Dummy – was the branch in an urban centre? |

Note: LAG = lagged variable by one time period. PM = Per Member

Table 2.8: Descriptive statistics of branches in sample of branches, New Zealand 1882-1884.

| 1882-1884 panel | | |
|------------------------|-------------|---------------------------|
| Variable | Mean | Standard Deviation |
| Sick Days per member | 5.94 | 5.50 |
| Sick Member per member | 0.15 | 0.11 |
| Branch Age | 11.58 | 8.36 |
| Management Costs PM | 0.45 | 0.22 |
| Sick Pay | 0.12 | 0.02 |
| Capital PM Jan | 9.95 | 11.87 |
| Contributions PM | 2.86 | 0.64 |
| Members | 77.09 | 68.12 |
| BOP PM | 1.09 | 1.55 |
| Admissions PM LAG | 0.21 | 0.24 |
| Expulsions PM LAG | 0.10 | 0.09 |

Table 2.9: Descriptive statistics of branches in sample of branches, New Zealand 1879-1884.

| 1879-1880 panel | | |
|------------------------|-------------|---------------------------|
| Variable | Mean | Standard Deviation |
| SDPM | 5.63 | 5.18 |
| SMPM | 0.14 | 0.10 |
| Branch Age | 10.77 | 8.28 |
| Management Costs PM | 0.48 | 0.25 |
| Sick Pay | 0.13 | 0.03 |
| Capital PM Jan | 9.20 | 10.18 |
| Contributions PM | 2.98 | 1.41 |
| Members | 71.47 | 65.70 |
| BOP PM | 0.99 | 1.90 |
| Admissions PM LAG | 0.19 | 0.24 |
| Expulsions PM LAG | 0.11 | 0.10 |

There are a number of limitations to this analysis. The returns to the registrar omitted information on variables that may have influenced branch level claims rates. Firstly, we have no way of knowing whether different branches paid different benefit rates as sickness episodes increased in duration. It was common for friendly societies to offer members full sickness benefits for the first six months of sickness, and thereafter to reduce the rate gradually. The registrar collected information from branches on the total number of days sickness experienced in different phases (up to six months, six to twelve months and greater than six months), however there is no way of knowing at what point in a sickness episode different societies scaled down sickness benefit payments, or by how much. It is possible that branches that scaled down benefits earlier had lower claims rates, as members were incentivised to return to work. Similarly, the registrar did not collect information from branches on how many days members had to wait after falling ill before they could start to claim sickness benefits. It was standard practice in the Oddfellows and Foresters to set this waiting period at three days, but it could be the case that different branches in the sample had different standards. This could also influence the analysis, as branches with a longer waiting period may have experienced fewer claims of short duration. Finally, the registrar's tables did not include information on whether branches instituted an age cut off, after which members were no longer allowed to claim. This final issue is unlikely to be significant given that friendly societies in New Zealand, as in Britain, faced the issue of members claiming sickness benefits as effective pensions by the end of the 19th century – a problem that only existed because societies did not

institute a cut off age. The former two issues are more important but the effects are likely to be marginal. Different societies were in competition for members leading to a general convergence on financial policies, such as the number of days members had to wait before they could claim and the point at which sickness benefits were scaled down. Moreover as **figure 2.10** shows, a small proportion of the total sickness experience of members was taken up by claims longer than 6 months.

We also have no way of knowing if different branches had different admission criteria. Some societies in Britain had rules prohibiting the admission of individuals from certain 'hazardous occupations'. If the same were the case in New Zealand then some variation between lodges would have been a consequence of variations in admissions criteria. However, as discussed, the main determinant of morbidity rates in any society was the age structure of the membership, which is measured in the controls included.

There is little risk that lodges measured sickness duration in different units. In Britain some societies measured the number of weeks sickness in six-day weeks, whereas others used a seven-day week. In New Zealand the forms returned to the registrar required that branches record the total number of *days* sickness experienced over the year.

All the models are jointly significant and were checked for autocorrelation and made robust to heteroscedasticity. Is there any evidence of 'claims awareness'? Between 1879-1884 the amount of capital per member held by the society had a large and significant effect on total prevalence (sick days per member) and incidence (sick members per capita), and this effect remains large and significant in the more rigorous fixed effects models (regressions 1-8). The capitalisation of the branch was measured at the end of the previous financial year and therefore there was no possibility of backward causation (obviously in a given year an increase in claims would reduce the capital per member). The magnitude of the effect is striking; capital per member had the largest impact on claims even in the fixed effects models. The impact and significance of the variable capital per member is equally strong when analysis was restricted to 1882-1884 (regressions 9-12).

Table 2.10: Regression analysis of sick days per member, New Zealand 1879-1884.

| Regression Number | 1 | 2 | 3 | 4 |
|--------------------------|----------------------|----------------------|----------------------|----------------------|
| Dates | 1879-1884 | 1879-1884 | 1879-1884 | 1879-1884 |
| Dependent Variable | Sick Days Per Member | Sick Days Per Member | Sick Days Per Member | Sick Days Per Member |
| Model | OLS | OLS | FE | FE |
| Coefficients | Standardised | Standardised | Standardised | Standardised |
| Hetroskedasticity | Robust | Robust | Robust | Robust |
| N | 663 | 663 | 663 | 663 |
| Constant | 8.103** (2.32) | 9.039*** (2.68) | -3.674 (-0.81) | -4.397 (-0.98) |
| Branch Age | -0.061 (-1.11) | -0.065 (-1.21) | -0.278 (-0.86) | -0.273 (-0.86) |
| Management Costs PM | -0.005 (-0.14) | -0.010 (-0.28) | -0.041 (-0.95) | -0.026 (-0.59) |
| Sick Pay | -0.103*** (-3.33) | -0.105*** (-3.39) | 0.009 (0.5) | 0.007 (0.41) |
| Capital PM January | 0.618*** (15.75) | 0.621*** (16.00) | 1.023*** (21.04) | 1.020*** (20.96) |
| Admissions Per Member | -0.002 (-0.05) | 0.001 (0.04) | 0.083 (0.41) | 0.023 (0.11) |
| Contributions PM | -0.046 (-1.42) | -0.048 (-1.46) | -0.003 (-1.46) | -0.003 (-1.54) |
| Members | 0.053 (1.14) | 0.050 (1.1) | 0.225 (1.12) | 0.267 (1.34) |
| BOP PM | -0.096*** (-2.95) | -0.093*** (-2.88) | 0.039** (2.23) | 0.037** (2.22) |
| Expulsions PM LAG | 0.017 (0.51) | 0.016 (0.49) | 0.022 (0.54) | 0.027 (0.66) |
| Temperance | -0.017 (-0.51) | -0.019 (-0.57) | | |
| Affiliated | -0.059* (-1.63) | -0.059* (-1.64) | | |
| Urban | -0.087** (-2.25) | -0.084** (-2.21) | | |
| Age Cohort Controls | Yes | Yes | Yes | Yes |
| Fixed effects | No | No | Yes | Yes |
| Year dummies | No | Yes | No | Yes |
| Adj R ² | 0.4229 | 0.4252 | 0.3442 | 0.3451 |
| F | 19.65*** | 23.26*** | 173.56*** | 187.69*** |

Coefficients with *t* statistics in parenthesis. * denotes significant at the 10% level. ** denotes significant at the 5% level, *** denotes significant at the 1% level.

Table 2.11: Regression analysis of sick members per member, New Zealand 1879-1884.

| Regression Number | 5 | 6 | 7 | 8 |
|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Dates | 1879-1884 | 1879-1884 | 1879-1884 | 1879-1884 |
| Dependent Variable | Sick Members Per Member | Sick Members Per Member | Sick Members Per Member | Sick Members Per Member |
| Model | OLS | OLS | FE | FE |
| Coefficients | Standardised | Standardised | Standardised | Standardised |
| Hetroskedasticity | Robust | Robust | Robust | Robust |
| N | 663 | 663 | 663 | 663 |
| Constant | 0.1679*** (2.52) | 0.206*** (3.20) | -0.099 (-1.17) | -0.114 (-1.31) |
| Branch Age | -0.272*** (-4.90) | -0.286*** (-5.18) | -0.358 (-1.56) | -0.344 (-1.45) |
| Management Costs PM | 0.125*** (3.42) | 0.111*** (3.08) | -0.044 (-1.01) | -0.030 (-0.70) |
| Sick Pay | 0.012 (0.37) | 0.012 (0.37) | -0.005 (-0.23) | -0.004 (-0.22) |
| Capital PM January | 0.653*** (16.33) | 0.662*** (16.68) | 1.026*** (20.88) | 1.023*** (20.72) |
| Admissions Per Member | 0.071** (2.03) | 0.078** (2.25) | 0.850* (1.77) | 0.746 (1.57) |
| Contributions PM | -0.054* (-1.63) | -0.060* (-1.80) | -0.001 (-0.44) | -0.001 (-0.46) |
| Members | 0.065 (1.39) | 0.060 (1.28) | 0.556*** (2.82) | 0.587*** (3.06) |
| BOP PM | -0.119*** (-3.59) | -0.114*** (-3.46) | 0.036** (2.08) | 0.033* (1.87) |
| Expulsions PM LAG | -0.056* (-1.65) | -0.058* (-1.73) | 0.014 (0.34) | 0.018 (0.46) |
| Temperance | 0.006 (0.17) | 0.001 (0.04) | | |
| Affiliated | -0.095*** (-2.60) | -0.094*** (-2.57) | | |
| Urban | -0.114*** (-2.91) | -0.108*** (-2.75) | | |
| Age Cohort Controls | Yes | Yes | Yes | Yes |
| Fixed effects | No | No | Yes | Yes |
| Year dummies | No | Yes | No | Yes |
| Adj R ² | 0.4005 | 0.3987 | 0.2608 | 0.2538 |
| F | 18.01*** | 20.95*** | 34.09*** | 38.93*** |

Coefficients with *t* statistics in parenthesis. * denotes significant at the 10% level. ** denotes significant at the 5% level, *** denotes significant at the 1% level.

Table 2.12: Regression analysis of sick days per member and sick members per member, New Zealand 1882-1884.

| Regression Number | 9 | 10 | 11 | 12 |
|--------------------------|----------------------|----------------------|-------------------------|-------------------------|
| Dates | 1882-1884 | 1882-1884 | 1882-1884 | 1882-1884 |
| Dependent Variable | Sick Days Per Member | Sick Days Per Member | Sick Members Per Member | Sick Members Per Member |
| Model | OLS | FE | OLS | FE |
| Coefficients | Standardised | Standardised | Standardised | Standardised |
| Hetroskedasticity | Robust | Robust | Robust | Robust |
| N | 344 | 344 | 344 | 344 |
| Constant | -12.352*** (3.05) | -15.228 (-1.36) | 0.209*** (2.60) | -0.1315 (-0.56) |
| Branch Age | -0.142** (-2.32) | 1.694*** (2.88) | -0.305*** (-4.79) | 0.748 (1.4) |
| Management Costs PM | 0.001 (0.02) | -0.107 (-1.54) | 0.091** (2.08) | -0.012 (-0.2) |
| Sick Pay | -0.108*** (-3.03) | 0.027 (0.39) | 0.047 (1.26) | -0.075 (-1.14) |
| Capital PM January | 0.843*** (18.78) | 0.968*** (13.07) | 0.869*** (18.63) | 0.955*** (16.59) |
| Admissions Per Member | -0.043 (-1.13) | 0.606** (2.07) | 0.052 (1.31) | 0.225 (0.32) |
| Contributions PM | 0.010 (0.24) | 0.062* (1.82) | 0.004 (0.09) | 0.052 (0.94) |
| Members | 0.020 (0.39) | 0.278 (0.72) | 0.071 (1.34) | 0.311 (0.88) |
| BOP PM | -0.159*** (-4.35) | 0.125*** (3.59) | -0.214*** (-5.63) | 0.025 (0.89) |
| Expulsions PM LAG | 0.054 (1.37) | -0.040 (-0.61) | -0.020 (-0.49) | 0.030 (0.39) |
| Temperance | -0.016 (-0.44) | | 0.038 (1.05) | |
| Affiliated | -0.073* (-1.85) | | -0.118*** (-2.86) | |
| Urban | -0.070* (-1.85) | | -0.130*** (-2.90) | |
| Age Cohort Controls | Yes | Yes | Yes | Yes |
| Fixed effects | No | Yes | No | Yes |
| Year dummies | No | No | No | No |
| Adj R ² | 0.6387 | 0.3027 | 0.6097 | 0.2567 |
| F | 28.56*** | 28.48*** | 25.36*** | 26.82*** |

Coefficients with *t* statistics in parenthesis. * denotes significant at the 10% level. ** denotes significant at the 5% level, *** denotes significant at the 1% level.

Balance of pay per member is a more appropriate measure of the short-term financial state of a society. Obviously in any one-year claims and balance of pay are negatively correlated. To overcome this problem, the variable used here refers to balance of pay in January (i.e. revenue minus expenditure over the previous year), whereas claims are measured over the current year (January to December). The variable is negative in the OLS models (regressions 1, 2, 5, 6, 9, 11) but it becomes significant and positive in the various fixed effects models (regressions 3, 4, 7, 8, 10, 12). This switch occurs whether using prevalence or incidence as the dependent variable and whether or not the analysis was restricted to 1882-1884. The flip is probably a consequence of an omitted variable bias, which the fixed effects help to minimise but do not totally eliminate. The rate of morbidity in a lodge was correlated one year to the next, simply because it was largely the same individuals in the lodge, although one year older. Because claims were correlated from one year to the next, then a society with lower sickness claims rates in year $t-1$ would have a more favourable balance of pay the next year. Hence the coefficient is negative in the OLS models. By adding the fixed effects we control for lodge specific characteristics that lead to the correlation of claims one year to the next. The flip in sign reflects the inclusion of the fixed effects. Therefore it seems likely that a more favourable balance of pay *was* associated with higher claims rates and overall, the effect of the balance of pay and capital per member suggest that claims awareness was an issue.

What was the impact of changing levels of social cohesion? The effect of branch size was weak and insignificant in most of the regressions. The effect was, however, positive and significant when using sick members per member as the dependent variable with fixed effects and year dummies (regressions 7 and 8). In these models the variable 'members' had the second largest effect. This suggests that group size affected the incidence of sickness claiming but not the overall prevalence. It could be that large branches were less able to police members for short sickness episodes, or that in large branches individuals felt less of a sense of social cohesion and were therefore more willing to claim for short periods. Urban branches had lower claims rates, and the effect was stronger for incidence than overall prevalence (contrast regressions 1-2 with 5-6 and 9 with 11). Urban areas were generally more unhealthy places, so this result suggests that if members lived at a distance, as would have been the case in rural societies, it was harder to police claims. The effect of 'admissions per

member' also offers some support to the hypothesis that branches had a problem with social cohesion. If we assume that it took time for members to develop bonds of trust between one another, then an influx of new individuals might have increased sickness claims by eroding goodwill or making monitoring more difficult. 'Admissions per member' had a weak and insignificant effect on sick days per member and a small and significant effect on sick member per member for the period 1879-1884 (regressions 5 and 6). The coefficient gets larger in the fixed effects model but is insignificant when year dummies were added. The fact that the results vary over the models prohibits drawing a definitive conclusion from these results as to the effect of admissions, but these results suggest that an increase in admissions increased the incidence of claims.

Combined these findings suggest that larger and less cohesive branches experienced a higher number of claims; plausibly because members lowered their 'sickness thresholds' and made more frequent, but shorter, claims. Punishment had an ambiguous effect. The coefficient on the variable 'expulsions per member' is small and insignificant in all but two of the models (regressions 5 and 6). Expulsions in the prior year reduced the total number of sick days per member, perhaps indicating that punishment encouraged members not to drag out sickness episodes, or 'malingering' to use friendly society parlance. The effect holds with the fixed effects but not with additional year dummies. The dummy for whether the branch was a non-drinking society was insignificant in all the models, meaning we cannot conclude as to whether drink was an important lubricator of successful cooperation.

What were the effects of organisational structure and different governance practices? Affiliated branches had fewer claims relative to 'local' societies (regressions 1, 2, 5, 6, 9 and 11). This was probably because they were better administered, however it also suggests that branches of larger societies were not incapable of building up a stock of social capital and goodwill (although as discussed, all societies faced challenges in this area). The variable for 'management costs per member' is only significant when using sick members per member as the dependent variable and the OLS method, but the effect goes away when using fixed effects (regressions 5-8). Spending more on management did not improve branch governance such that

sickness claims fell, but equally there is no evidence that it increased claims by inducing a sense of ill will on the part of members.

Did members make cost-benefit calculations? One way to test for moral hazard is to look at the impact of an increase in sickness benefits on claims rates. Murray has applied this technique to a number of US household budget surveys and work-based cooperative sickness funds. Murray concluded that an increase in benefits did lead to an increase in claiming.³¹⁹ However, as discussed, there are a number of problems with his analysis stemming from his reliance on cross sectional data. In these regressions the variable 'sick pay' was constructed in the same way as in other studies, dividing the total amount of benefits paid out by the total number of sick days.³²⁰ There remains the problem that sickness benefits might be correlated year-on-year. Using fixed effects and controlling for the age structure of the society helps minimise this bias. The results here are striking and contradict Murray's findings. An increase in sick pay had no effect on sickness rates once year dummies and fixed effects were introduced (regressions 1-8) and when analysis was restricted to 1882-1884. The quality of the data for New Zealand allows for the inclusion of more controls, which may account for the divergence from Murray's results. These results suggest that members did not increase their claims in response to higher benefits. Similarly an increase in contributions per member had a small but largely insignificant effect on claims.

Conclusions

A number of historians have argued that the competitive advantage of the friendly societies lay in their ability to monitor claims and curtail opportunism. This chapter complicates this interpretation. Previous studies have underestimated the impact of intra-lodge dynamics on visible sickness rates. The results presented in this chapter support Guinnane *et al.*'s argument that there were diseconomies of scale in cooperative sickness insurance.³²¹ Larger, growing, and rural branches had higher claims rates: either because it was more difficult to monitor claims in these societies,

³¹⁹ Murray, *Origins of American Health Insurance*, pp.169-200.

³²⁰ Guinnane and Streb, 'Moral Hazard', pp.89-91; Murray, *Origins of American Health Insurance*, pp.190-200.

³²¹ Guinnane, *et al.*, 'The Costs and Benefits', pp.27-46.

or because the social ties between the members were weaker. This is a more behavioural approach to the problem of moral hazard than the one taken by Murray. There is no evidence to support his conclusion that members mechanistically responded to higher sickness benefits.³²² Yet the wealth of the society did have an impact on claims rates, which suggests that members adjusted claims to reflect the ability of the organisation to pay, and/or that societies sanctioned more claims when times were good. Some officials worried about this type of behaviour. For example in Australia in 1896 the statistician J.H. Taylor, complained that societies were exhibiting a sort of short-term sympathetic myopia: ‘There is much reason to fear...[sickness rates] are largely augmented by a lax supervision of the sickness claims, as well as by the feeling of sympathy and sentiment which, extended to the individual, is unfair to the membership as a whole’.³²³ In 1898 the GM of the Victoria district of the Oddfellows called on lodges to supervise sickness cases carefully, ‘and to see that in every case only strictly legal and just claims are recognised, apart from sentiment and sympathy’.³²⁴ The fact that sickness rates responded to an increase in capital but not an increase in benefits suggests that members often worked through ill health but were more likely to claim, or to have their claims approved, if a society’s finances were in good order.

³²² Murray, *Origins of American Health Insurance*, pp.169-200.

³²³ *MUIOOF in Victoria, Proceedings of the Grand Annual Moveable Committee, 17th-20th March 1896* (Melbourne, 1896), p.9 (NBA.Z227, Box 430).

³²⁴ *MUIOOF in Victoria, Proceedings of the Grand Annual Moveable Committee, 15th-18th March 1898* (Melbourne, 1898), p.8 (NBA.Z227, Box 430).

Chapter 3 – Evaluating the effectiveness of friendly societies: Part 2 – Recruitment, age homophily and the problem of an ageing membership

Introduction

In sickness insurance adverse selection occurs when the price of a contract reflects the average risk of a given population, and so particularly unhealthy individuals have more incentive to join than healthier individuals.³²⁵ To be effective insurers need to screen out riskier individuals. Friendly societies were aware of this problem and adopted techniques such as employing a doctor to screen candidates and graduating entry fees by age. Yet the critical advantage of a friendly society over a commercial insurer, for whom such practices were also available, was that social ties could be mobilised in the selection process. To enter a branch one needed to be proposed by two existing members, who had a social and financial incentive to exclude disproportionately risky individuals.³²⁶ Furthermore, there was normally a waiting period where other members could object to the nomination.³²⁷ Branches leveraged the social networks of members and charged them to inquire as to whether the individual was in good health and of sound moral character. For example the minute books of the Loyal Rising Star Lodge in Beverley, of the Oddfellows, listed the names and ages of every proposed individual as well as indicating which applicants were unsuccessful.³²⁸ Members were willing to undertake this enquiry because of a sense of loyalty to the group and because there was a reputational cost to recruiting an unhealthy individual. Emery has suggested that these practices contributed to the general effectiveness of friendly societies.³²⁹ More directly Gottlieb has argued that fraternal life and sickness insurers in the US overcame the problem of adverse selection.³³⁰

³²⁵ Estrin and Laidler, *Introduction to Microeconomics*, p.387; Einav and Finkelstein, 'Selection in Insurance Markets', p.115; L. Einav, *et al.*, 'Estimating Welfare', pp.882-890; Belli, 'How adverse selection affects the health insurance market', p.3.

³²⁶ Gosden, *Self-help*, p.16; Riley, *Sick, Not Dead*, pp.289-292; Green and Cromwell, *Mutual Aid*, pp.50-52; Emery, 'Risky Business?', p.197; Gottlieb, 'Asymmetric information', pp.274-5; Downing 'Social Capital', pp.14-15; Gorsky, 'Mutual Aid', p.319.

³²⁷ Green and Cromwell, *Mutual Aid*, pp.50-51.

³²⁸ 'Minute Books of the Loyal Rising Star lodge, Beverley, 1886-1921' ('Minute Book – Beverley – 1886-1903' parts 1-5 and 'Minute Book – Beverley – 1903-1921' parts 1-6) (OOA).

³²⁹ Emery, 'Risky Business?', pp.197, 221-2.

³³⁰ Gottlieb, 'Asymmetric information', pp.288-9.

There are a number of problems with the existing literature. Gottlieb used two household budget surveys for Michigan and California in 1889 (collected by the US Bureau of Labour) to test whether the monitoring employed by fraternal insurance societies allowed them to overcome information asymmetries.³³¹ He examined whether members experienced higher morbidity rates than non-members, controlling for all other attributes: for example, was a representative 45-year-old member more morbid, on average, than a representative 45-year-old non-member? This slightly confuses the issue faced by the friendly societies. The main issue was whether the organisation was composed of a disproportionate number of members from more morbid age cohorts. This was an even more acute problem if societies were still operating on a part pay-as-you-go and part funded plan. The problem was not whether societies were adversely selecting sicker members within a given age cohort, but whether they were composed of too many members from older age cohorts. This is a different issue to adverse selection, but it was the more pressing one at the time. This chapter examines the influence of the recruitment process, and the clustering of recruits around a similar age, on the long-term problem of an ageing membership.

There is ample evidence that societies were unable to maintain a favourable age structure over the long run. In the US a repeated criticism of fraternal insurance was that it relied on recruiting new members to hold down the average age of members.³³² Over the nineteenth century a great many fraternal associations failed to maintain a level average age and mortality rates spiralled out of control (see chapter 6). In Britain an enduring problem facing the friendly societies was a high proportion of old members draining the funds. Societies paid benefits to members too sick to work. Yet for old members the line between being too sick to work and simply being too old to work was blurred. Membership fees had not been calculated to factor in this type of perpetual infirmity, even after the transition to actuarial pricing.³³³ Towards the end of the nineteenth century this became a major problem.³³⁴ Many branches ended up effectively paying pensions. Some tried to establish separate pension schemes, but this required prohibiting sick pay benefits for members over a

³³¹ Ibid., p.271.

³³² Landis, *Friendly Societies*, p.112; Kaufman, *For the Common Good?*, pp.47-51.

³³³ Brabrook, *Provident*, pp.88, 112-117.

³³⁴ Riley, *Sick, Not Dead*, pp.145-146.

certain age – without this provision there was no incentive to sign up. Few would have been willing to pay higher contributions when they could rely on the existing sickness benefits system. With competition for members so intense few societies could risk losing out by forcing members onto a more expensive pension scheme.³³⁵

These examples suggest that adverse selection was an issue. Most of the existing literature emphasises the advantages of the recruitment process, and how social networks could be mobilised to effectively vet new members. Yet there was a downside stemming from a property observed in all social networks: homophily. Homophily is the tendency for individuals to form social ties with people similar to them – as the saying goes, ‘birds of a feather flock together’. In a survey of the literature on homophily McPherson *et al* observed that social networks are homogenous with regard to many socio-demographic, behavioural and interpersonal characteristics.³³⁶ For friendly societies social homophily was a barrier to risk diversification. If age homophily influenced recruitment then this would have contributed to a gradual ‘age drift’; as the members aged so too would the new recruits. As shown in chapter 1, younger members were also more likely to secede than older members. Combined, these two dynamics created an inflow and outflow problem that created an aging membership problem. The rest of this chapter will argue that social homophily, and in particular age homophily, was a ‘design flaw’ in the friendly society movement.

Section 1: The ageing population problem and social homophily

Towards the end of the nineteenth century the biggest challenge facing the affiliated orders was an ageing membership base. Harris *et al.* have argued that societies were unable to maintain a supply of new recruits, creating a demographic bulge.³³⁷ This was true, but it was only part of the problem. In the Oddfellows the raw volume of admissions increased over the nineteenth century and the number of admissions per member stagnated (**figure 3.1**). An equally serious problem was that

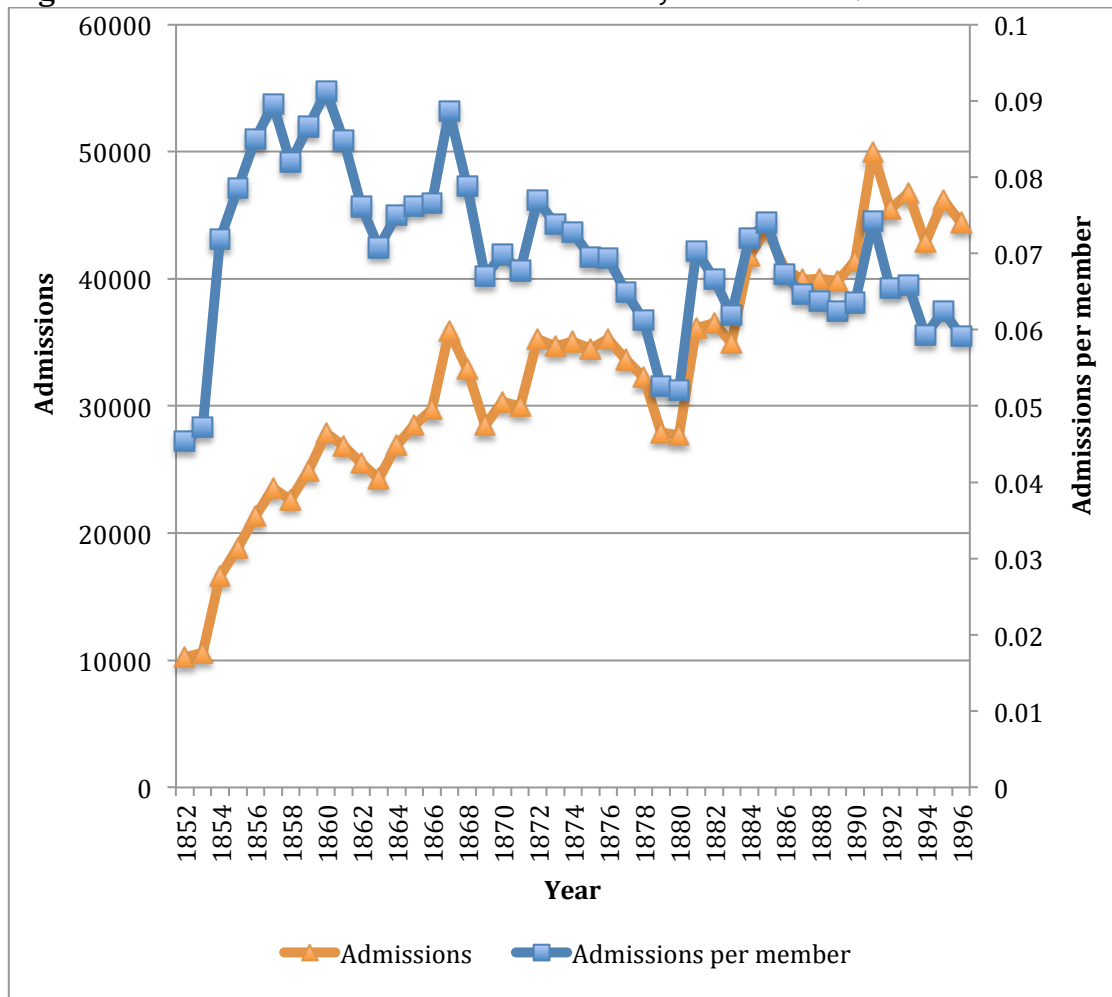
³³⁵ Gosden, *Self-help*, pp.260-1; Gilbert, ‘The Decay’, pp.36-55; Cordery, *British Friendly Societies*, pp.129, 159-161.

³³⁶ M. McPherson, *et al.*, ‘Birds of a Feather: Homophily in Social Networks’, *Annual Review of Sociology*, 27, 1, (2001), p.415.

³³⁷ Harris, *et al.*, ‘Sickness Insurance’, pp.99-100.

new members were getting older. The Oddfellows kept a comprehensive record of the number of members admitted at each age between 1862 and 1904. **Figure 3.2** shows that the age structure of new members changed considerably between these years. The proportion of young members declined and old members increased. **Figure 3.3** shows the change in the proportion of members initiated at each age. As demonstrated in chapter 1, another issue was that younger members were disproportionately more likely to secede than older members (see **figure 1.11**), exaggerating the aging membership problem.

Figure 3.1: Admissions into the Oddfellows, Britain 1852-1896.



Source: *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1896* (Manchester, 1896), pp.310-312 (OOA).

Figure 3.2: Proportion of individuals joining the Oddfellows at each age, Britain 1862 and 1904.

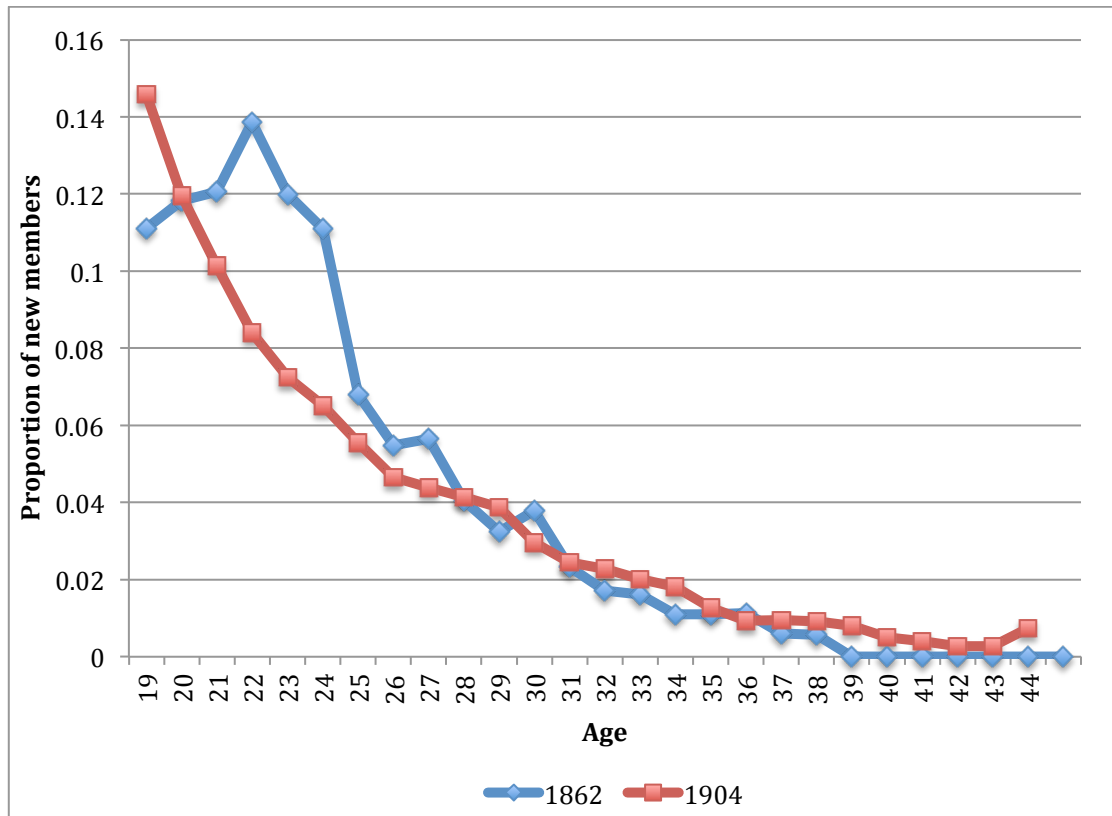
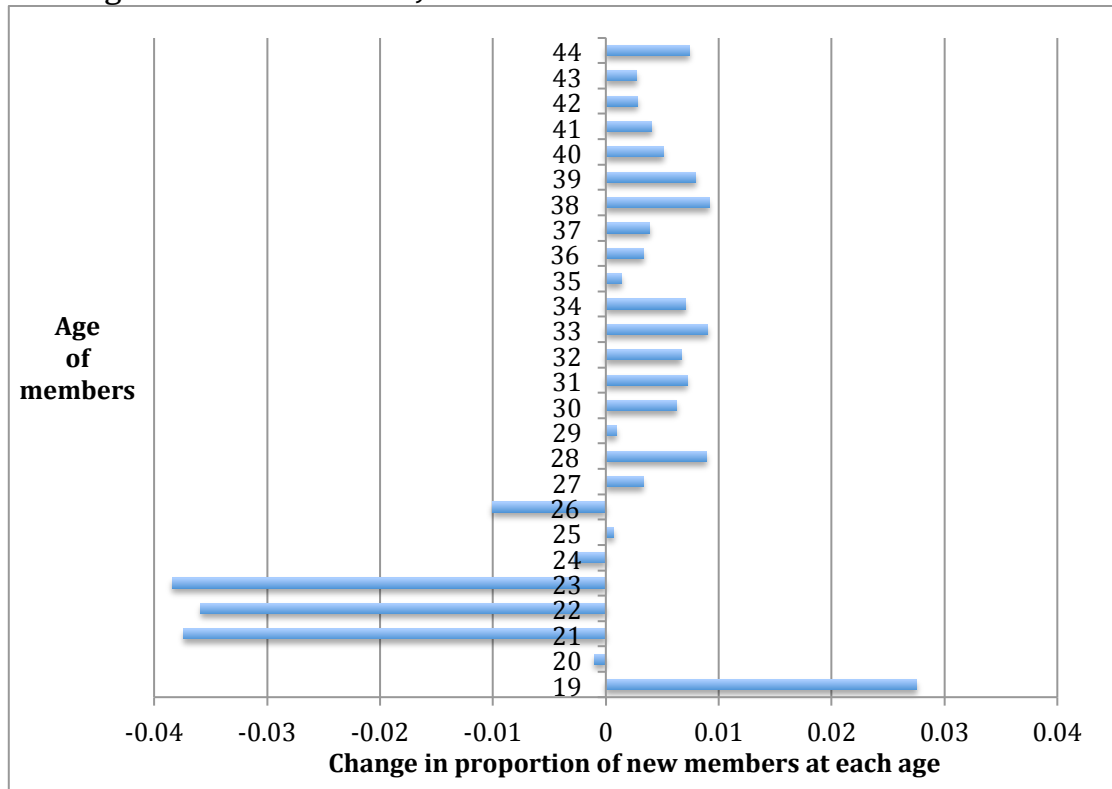


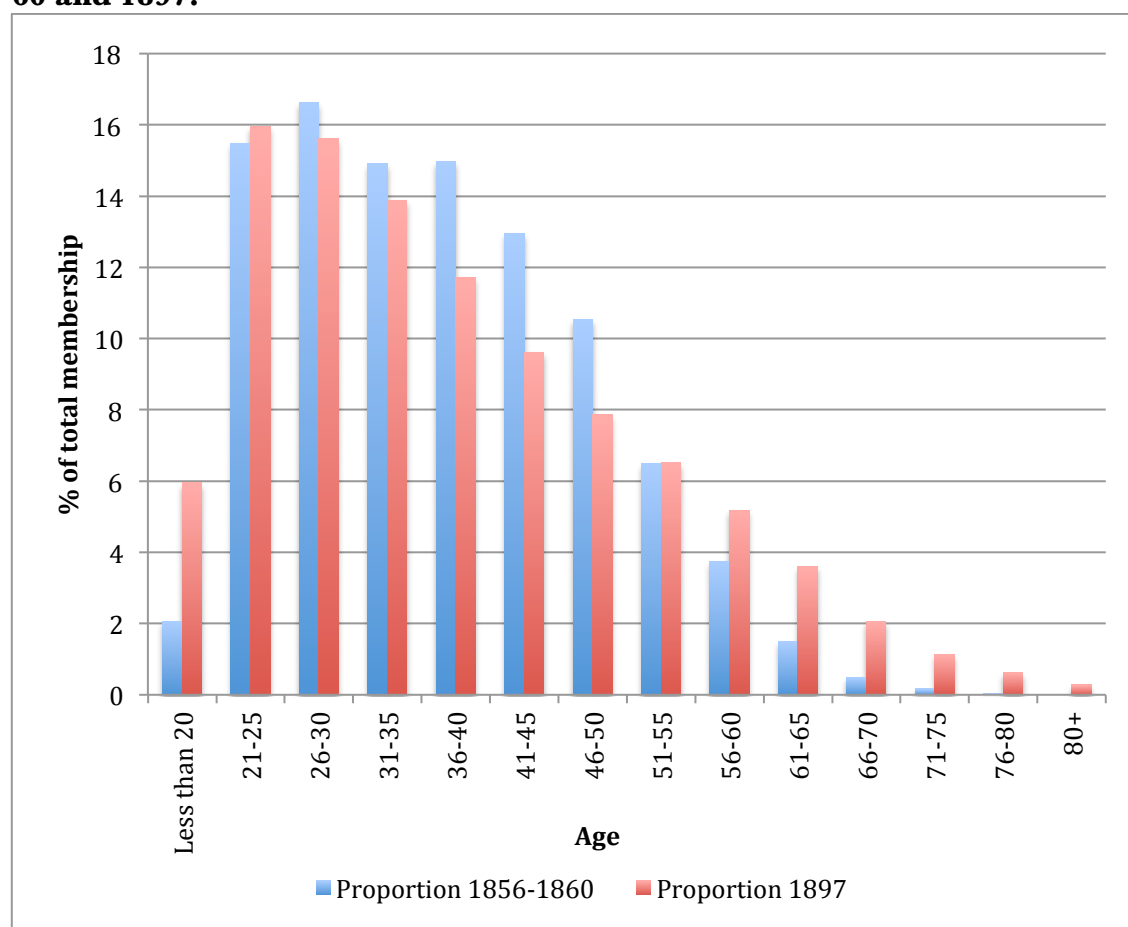
Figure 3.3: Change in proportion of individuals joining the Oddfellows at each age from 1864 to 1904, Britain.



Source: For figure 3.2 and 3.3, *MUQR, April 1st 1869*, p.11; *MUQR, April 1904*, pp.85-86 (OOA).

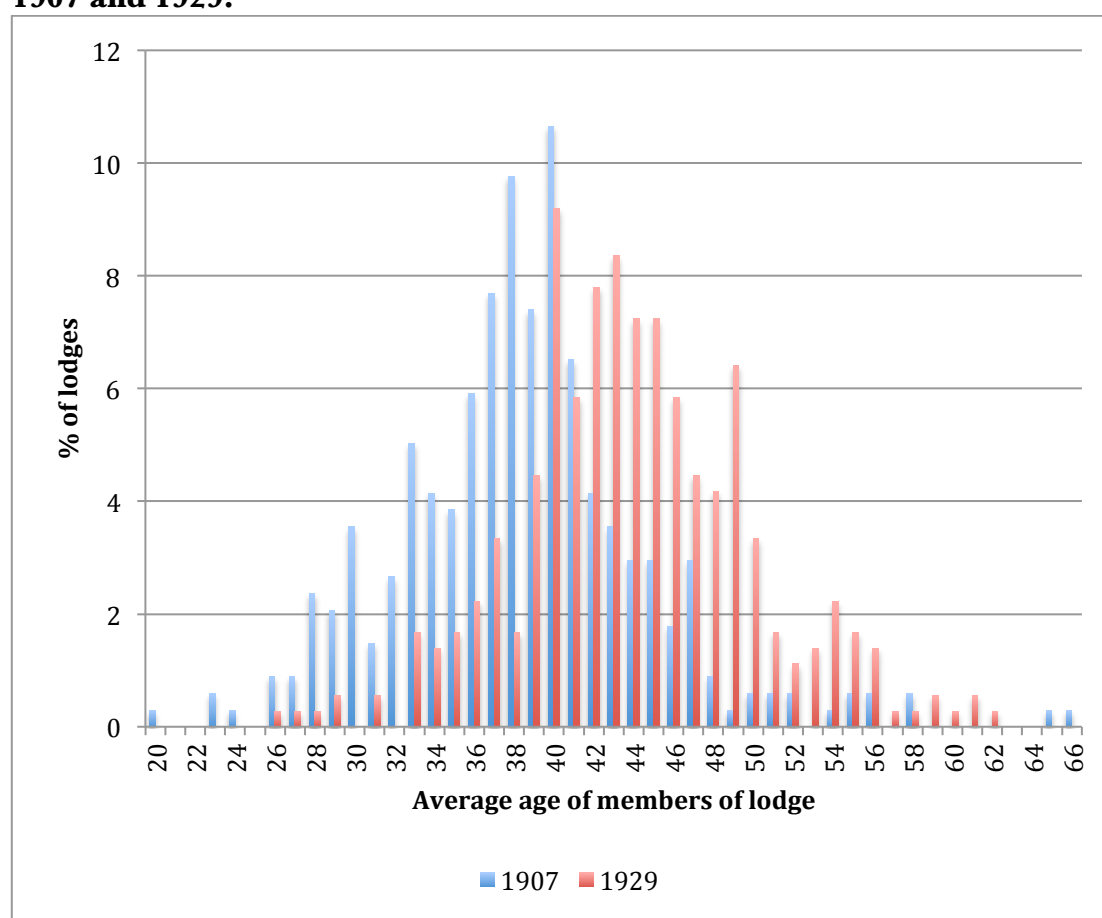
The age structure of the entire membership exhibited the same trend. **Figure 3.4** is based on two actuarial valuations of the Oddfellows in 1856-1856 and 1893-1897. The proportion of members under 20 and between 20 and 25 actually increased over the second half of the nineteenth century, but at the opposite end of the spectrum there was a surge in the number of old members, who tended to claim much more (see chapter 2). The average age of members of individual lodges is less instructive because it obscures the age distribution within the lodge. Unfortunately there were no actuarial investigations after Watson's 1903 publication. **Figure 3.5** is based on a random sample of 338 lodges in 1907 and 360 lodges in 1929 (for a discussion of the sampling procedure see chapter 4) and it shows that the ageing process accelerated, with a huge shift in the distribution to the right. The shift between 1907 and 1929 was of course also a consequence of the demographic disruptions caused by World War 1, which exacerbated the ageing membership challenge.

Figure 3.4: Age distribution of members of the Oddfellows, Britain 1856-60 and 1897.



Source: Watson *An Account* pp.138-141; Ratcliffe *Observations* (1850), pp.19-20.

Figure 3.5: Average age of members in lodges of the Oddfellows, Britain 1907 and 1929.



Source: *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1907* (Manchester, 1907); *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1929* (Manchester, 1929) (OOA).

Examining the recruitment process is methodologically difficult. In order to test whether there was a homophilic tendency we need information on both the new member and their proposers. The vast majority of societies kept an admission register, but few survive and most simply recorded information on the new members. ‘Proposition books’ are more valuable because they give information on proposers and seconders. Unfortunately these records are rare. The local-level records for the Foresters are particularly rich and I was able to locate a handful of proposition registers in their archives in Southampton (see **table 3.1**).

Through nominal linkage it was possible to identify the age on joining of the proposer and seconder, and therefore their age on recruiting each new member. In **figure 3.6** the variable ‘Younger’ is the age of the proposing/seconder member minus the age of the new member. A negative ‘younger’ value indicates that the new

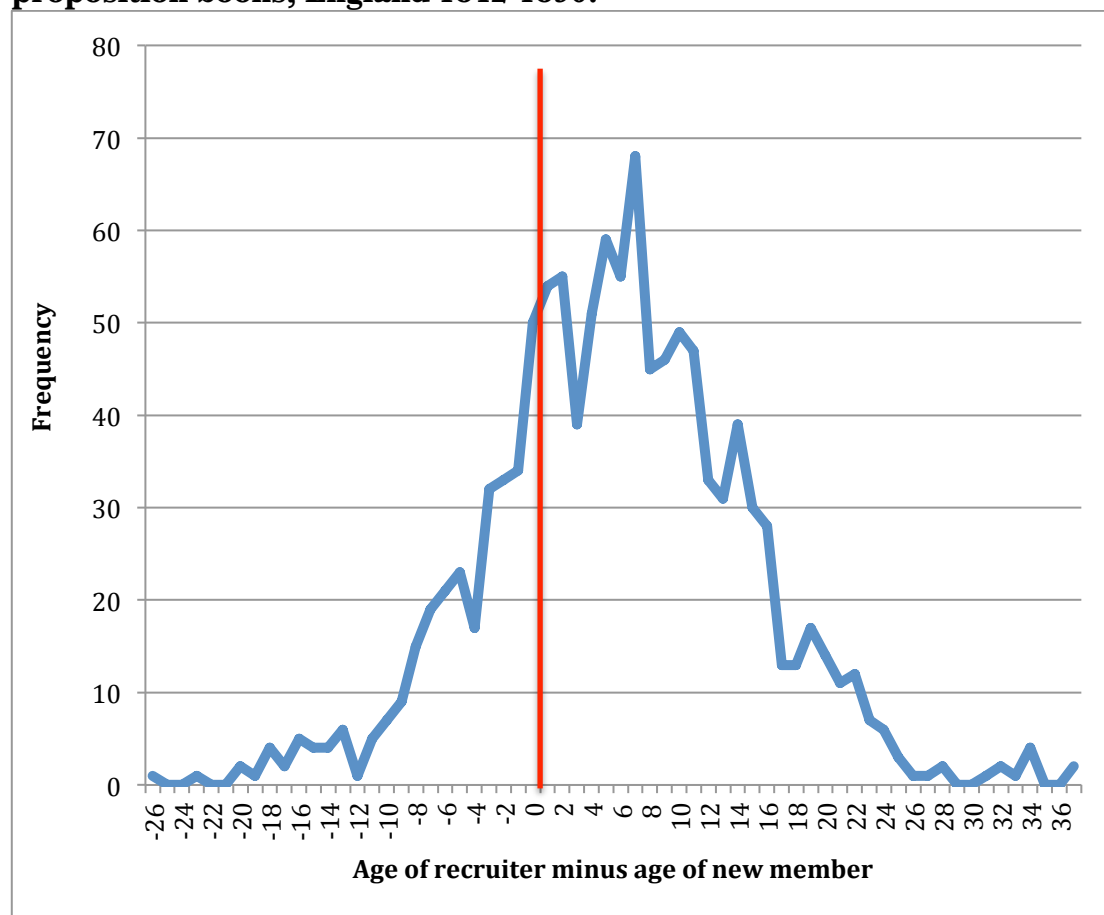
member was older than the recruiter, i.e. the more positive the value, the better for the court. On average new members were 3.75 years younger than their proposer/second. However there was a large number of new members who were older or of a similar age to their recruiters, with 26.3% the same age or older.

Table 3.1: Details of Foresters courts used in a sample of proposition books, England 1842-1890.

| Court | Location | Dates covered | Number of cases | Size in 1904 |
|-----------------------------------|------------|---------------|-----------------|--------------|
| Sons of Mariners ^a | Bermondsey | 1842-1850 | 475 | 94 |
| Lords of Bascoe ^b | Walsall | 1875-1885 | 142 | 77 |
| Pride of Suffolk ^c | Ipswich | 1903-1915 | 151 | 558 |
| Queen of the Valley ^d | Ilkeston | 1894-1910 | 389 | 63 |
| Robin Hood's Retreat ^e | Bagthorpe | 1890 | 3 | 303 |

Note: Proposer = 595, Seconder = 563. *Sources:* *Directory of the Ancient Order of Foresters for 1904* (FHT); Membership Registers, FHT, items B3/134 ^a, J4/138 ^b, B5/127 ^c, D3/118 ^d, D3/123 ^e.

Figure 3.6: Histogram of the variable 'Younger' in a sample of proposition books, England 1842-1890.



Source: see source note table 3.1 Red line at 0.

Descriptive statistics and correlations are indicative but are insufficient to identify social homophily because we are only observing ‘real’ recruitment pathways and not the potential connections that might have existed. It is necessary to ascertain the impact of various individual attributes on why some links formed whereas others did not. The key question is why individual B, and not individual C, recruited individual A. The membership register of the Queen of the Valley Court, Ilkeston, was particularly detailed.³³⁸ Using this information we can create a counterfactual pool of members who could have potentially recruited each new member. Individuals were included in the pool if they met the following criteria: they had to be a member and they could not have already left the court. From this pool the dummy variable ‘Link’ was generated – taking the value of 1 if the potential proposer/seconded did in fact recruit the new member, and 0 if not. Regression analysis has been used to test the impact of various variables on the likelihood of a link (a proposal) forming between a member in the pool and the new recruit.

The independent variables are listed in **tables 3.2** and **3.3**. ‘Younger’ measures how much younger the new member was than their recruiter (both proposer and seconded). The difference in age has been interacted with the dummy variables ‘Young’ and ‘Old’. These variables take the value of 1 if the new member was younger or older than the recruiter. The ‘Age Homophily Dummy’ measures the impact of the two individuals being in the same broad age range (within 5 years of one another).

Information on the residence of the new member was very detailed, going down to the street level in the majority of cases.³³⁹ ‘Distance’ measures the distance in kilometres between the new member and the member in the pool of recruiters. **Figure 3.7** shows the connections between individuals in and around Ilkeston. This map suggests that spatial proximity has a strong influence on recruitment, and this aligns with D’Cruze and Turnbull’s finding that there was a high degree of neighbourhood propinquity amongst members of Oddfellows lodges in Preston.³⁴⁰

³³⁸ ‘Membership Register of the Queen of the Valley Court, Ilkeston’ (FHT item D3/118).

³³⁹ Locations were geocoded using Google maps. I used the middle point in a street if a number was missing. Many of the street names and numbers are the same as today, although in a few instances it was necessary to consult websites on local history.

³⁴⁰ S. D’Cruze and J. Turnbull, ‘Fellowship and family: Oddfellows’ lodges in Preston and Lancaster, c.1830-1890’, *Urban History*, 22, 1, (1995), pp.43-45

‘Same trade’ is a dummy for whether the two members were in the same occupation. For a small town like Ilkeston it is reasonable to assume that two individuals in the same occupation probably knew one another. In social network science ‘transitivity’ refers to the tendency of the friends of one person to be friends with one another.³⁴¹ ‘Trans’ is a dummy variable taking the value of one if the potential recruiter in the pool had a prior connection with one of the two real recruiters, because they had either recruited with them or had been recruited by them. So in reference to **figure 3.8**, ‘Trans’ tests the probability of A and C forming a connection given that A and B and B and C already had connection. Essentially the variable measures the probability of C seconding A given that (i) B proposed A, and (ii) C and B had either recruited in tandem or had recruited one another in the past (or both).

Table 3.2: Independent variables used link likelihood models.

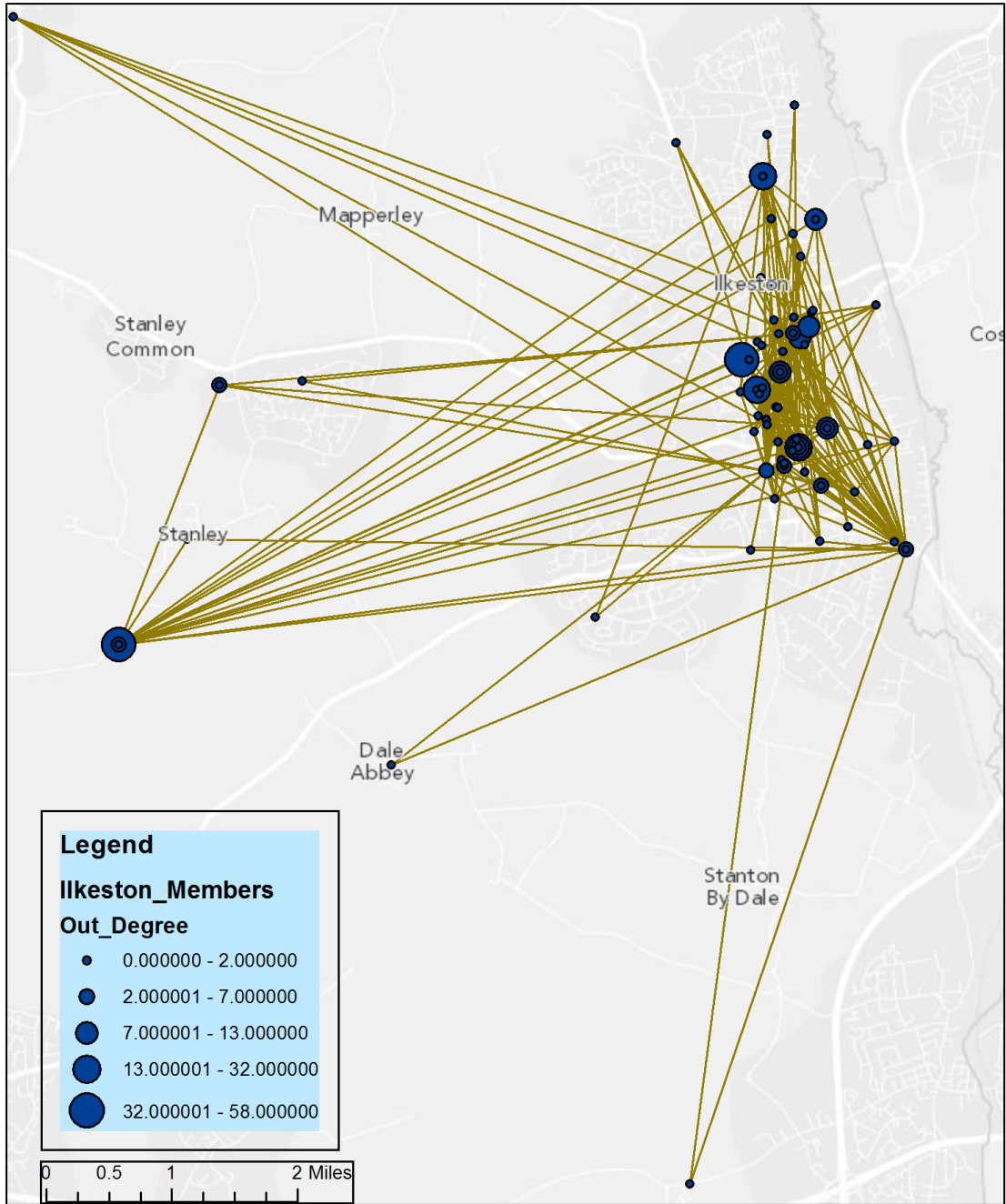
| Variable | Description | Mean | Standard Deviation |
|------------------------|--|-------------|---------------------------|
| Younger | Is the new member younger than the recruiter? - Age of recruiter on day of initiation minus age of new member | 6.28 | 10.833 |
| Young * Age Difference | Dummy taking value of 1 if the new member is younger than the recruiter, interacted with difference in age in years. | 7.73 | 7.993 |
| Old * Age Difference | Dummy taking value of 1 if the new member is older than the recruiter, interacted with difference in age in years. | 1.903 | 4.901 |
| Distance | Distance in km between the residence of the new member and the recruiter | 1.873 | 1.799 |

³⁴¹ D.L. Hansen, B. Shneiderman and M.A. Smith, *Analysing Social Media Networks With NodeXL* (Burlington, 2011), p.84.

Table 3.3: Dummy variables used in link likelihood models.

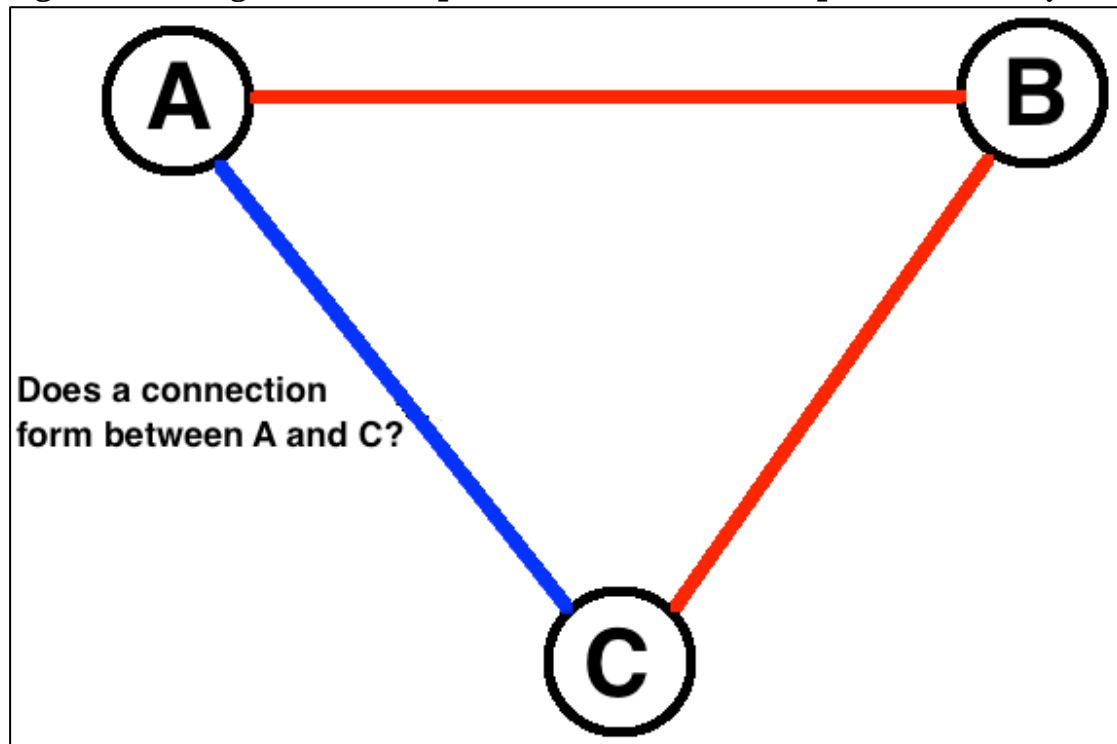
| Variable | Description | % taking value of 1 in sample |
|-----------------|--|--------------------------------------|
| Same Trade | Were the recruiter and the new member occupied in the same trade? | 30.84% |
| Transitivity | This takes the value of 1 if the recruiter A, (both real and possible) had a prior connection with actual recruiter B (through recruiting together or one having recruited the other). See figure 3.8 for a further explanation | 11.84% |
| Age homophily | Takes the value of 1 if the new member and the recruiter have an age within 5 years of each other. | 46.04% |
| Younger Dummy | Was the new member younger than the recruiter at that point in time? | 71.56% |

Figure 3.7: Network connections between recruiters and new members, Queen of the Valley Court, Ilkeston, 1894-1910.



Note: Out-degree is the number of individuals a member recruited. *Source:* See footnote 338 page 150.

Figure 3.8: Diagrammatic representation of the concept of transitivity.



The results of a logit regression are listed in **tables 3.4** and **3.5**. Overall the models perform well, with 98-99% of outcomes (whether a link formed or not) correctly predicted. All the regressions are jointly significant. The coefficients are the mean of the marginal effects – the impact of a unit change in the independent variable on the probability of a link forming. In the case of a dummy variable this is the impact of moving from 0 to 1. Age homophily does seem to have influenced recruitment. The probability of a link forming increased if the two ages were within 5 years of each other (model 2, **table 3.4**). However the effect was slight and the other coefficients suggest that members were seeking out younger individuals. The coefficient for the variable ‘Younger’ shows that the probability of linkage increased by 0.02% for every year that the new member was younger than the recruiter (model 1, **table 3.4**). If the new member was younger the likelihood of a link increased by 0.6% (model 1, **table 3.5**). The effect of an age gap worked in the opposite direction depending on whether the new member was older or younger. The probability of a connection increased by 0.2% for every years age difference if the new member was younger, but only fell by 0.1% if they were older (models 2 and 3, **table 3.5**). Overall these results suggest a degree of ‘youth biased’ age homophily.

Table 3.4: Logit models testing the impact of various variables on the likelihood of a connection forming between individuals in the Queen of the Valley Court, Ilkeston, 1894-1910.

| Model | 1 | 2 |
|------------------------|------------------------------|------------------------------|
| Dependent Variable | Link – Does a link form? | Link – Does a link form? |
| Coefficients | Mean of the marginal effects | Mean of the marginal effects |
| Younger | 0.0002551*** (4.65) | |
| Age Homophily Dummy | | 0.0018046* (1.64) |
| Distance | -0.0014276*** (-3.88) | -0.0012202*** (-3.31) |
| Same Trade Dummy | 0.0058274*** (5.11) | 0.0056567*** (4.97) |
| Transitivity Dummy | 0.0076816*** (5.43) | 0.0064574*** (4.69) |
| N | 34,691 | 34,691 |
| LR Chi2 | 86.60 | 66.21 |
| Prob > chi2 | 0.000 | 0.000 |
| Pseudo R ² | 0.0215 | 0.0164 |
| % correctly classified | 98.8% | 98.95% |

Coefficients with z statistics in parenthesis. * denotes significant at the 10% level. ** denotes significant at the 5% level, *** denotes significant at the 1% level.

Occupational and residential similarity also had an impact on recruitment. Working in the same trade increased the probability of link formation by between 0.54% and 0.58%. This is a weak effect when compared with residential proximity. Unsurprisingly ‘Distance’ had a negative effect; the likelihood of a connection fell by between 1.2% and 1.4% for every kilometre of distance between the two individuals. The ‘Transitivity’ variable had a positive effect, suggesting that there was a degree of social clustering within the court, with members recruiting in conjunction with those they already had a connection with. It was probably the case that when a member proposed an individual they asked a friend to second the nomination.

Table 3.5: Further logit models testing the impact of various variables on the likelihood of a connection forming between individuals in the Queen of the Valley Court, Ilkeston, 1894-1910.

| Model | 1 | 2 | 3 |
|-----------------------------------|------------------------------|------------------------------|------------------------------|
| Dependent Variable | Link | Link | Link |
| Coefficients | Mean of the marginal effects | Mean of the marginal effects | Mean of the marginal effects |
| Younger Dummy | 0.00659*** (4.57) | | |
| Younger Dummy * Age difference | | 0.00211*** (3.14) | |
| Older Dummy * Age difference | | | -0.00124*** (-4.75) |
| Distance | -0.01306*** (-3.56) | -0.00139*** (-3.78) | -0.00126*** (-3.45) |
| Same Trade Dummy | 0.00564*** (4.97) | 0.00587*** (5.15) | 0.00547*** (4.82) |
| Transitivity Dummy | 0.00741*** (5.30) | 0.00720*** (5.13) | 0.0076*** (5.45) |
| N | 34,691 | 34,691 | 34691 |
| LR Chi2 | 88.29 | 73.07 | 106.13 |
| Prob > chi2 | 0.000 | 0.000 | 0.000 |
| Pseudo R ² | 0.0219 | 0.0181 | 0.0263 |
| % correctly classified | 98.95% | 98.91% | 98.95% |

Coefficients with z statistics in parenthesis. * denotes significant at the 10% level. ** denotes significant at the 5% level, *** denotes significant at the 1% level.

These results indicate that in the case of the Ilkeston court, social homophily influenced recruitment. The economic significance of occupational and residential homophily is ambiguous. On the one hand individuals in the same trade and living in close proximity represented a ‘correlated risk’, which was bad from an insurance perspective. A virus could easily spread around a neighbourhood and members in the same occupation might fall out of work at the same time (for example, because of a business failure or an industry wide strike), increasing the chance of them falling into ill health. On the other hand residential and occupational homophily made it easier for members to monitor sickness claims. It is impossible to tell which effect was stronger without information on individual claims. However at their core friendly societies were insurance organisations and successful insurance requires risk diversification. Social homophily meant risk concentration. To borrow Guinnane,

Streb and Jopp's phrase, this was a 'design flaw' in the mutual insurance model.³⁴² The impact of age homophily is less ambiguous: if members were recruiting individuals of a similar age, then, *ceteris paribus*, as the court and the members aged, then so too would new recruits. In the Ilkeston court there is evidence that age homophily did influence recruitment, but also that members were actively seeking out individuals younger than them. This pattern of 'youth biased age homophily' was still a potential problem for friendly societies and could lead to a long term age drift, as the next section will demonstrate using a series of Monte Carlo simulations.

Section 2: Simulating the impact of age homophily

What do the results from this small sample of courts mean for our understanding of the friendly society movement at the national level? Simulation methods are a useful way of approaching this question. Even if we could locate more proposition books it is unlikely that the total number available will ever represent more than a tiny minority of friendly society branches. What follows is a counterfactual procedure that simulates what a large number of branches might have looked like if the results obtained here were replicated over a long period of time.

Monte Carlo methods cover a broad range of techniques that use probabilities to model the evolution of systems over time. Monte Carlo simulations are especially useful where there is a high degree of statistical uncertainty in the underlying data, where a process is complex with many possible outcomes over time, and where real world data are unavailable. Eric Schneider, for example, has used Monte Carlo techniques to adjust real wage estimates to reflect the changing size of households in eighteenth century England. Because we do not have data on the actual size of households, Schneider had to use demographic data to simulate the size of 20,000 families in two different periods.³⁴³ Similarly, we do not have much information on the changing age structure of a large number of individual friendly societies. The directories of the Foresters recorded the average age of members of individual courts, but average age is a poor measure because it obscures the distribution of ages within a

³⁴² Guinnane *et al.*, 'The Costs and Benefits', p.31.

³⁴³ E. Schneider, 'Real wages and the family: Adjusting real wages to changing demography in pre-modern England', *Explorations in Economic History*, 50, 1, (2013), pp.99-115.

court. Even when we do have information on the age of members we have very little complimentary information on the age of recruits and even less on the age of recruiters. This makes it difficult to be certain what caused the ageing of new members. In the next section I will create a sample of 100,000 hypothetical branches and model their evolution over a period of 50 years. We can then use these simulations to examine the impact of different degrees of ‘age homophily’ on age structure.

Simulation is not the same as replication. This is an important distinction. Replicating these results would only confirm what we already know. Simulation is much subtler. In this sample of courts the mean difference between the age of the new member and the recruiter was 5.75 (meaning the new member was 5.75 years younger). However there was a large amount of variance in the distribution and the standard deviation was 8.78 years (see **figure 3.6**). Therefore although the most common outcome was that the new member was 5 years younger than the recruiter, there was still a possibility that the new member might be significantly older or significantly younger. A simulation can encompass such uncertainty. A second issue is that any one branch might develop in a number of ways depending on how its members recruited at different points in the branch’s evolution. A simple thought experiment illustrates the point. Imagine two branches, A and B, with an identical set of members. In the first year in court A, based on random factors, a number of young members decided to recruit and selected a group of friends slightly younger than them. In court B, also based on random factors, a group of older members recruited a few individuals slightly older than them. Over the next 40 years the two courts recruited at the same rate and every new member shared the same age as their recruiter. After 40 years we would expect the two branches to have had a very different age distribution based on this random divergence early on in time. This is an example of ‘path dependence’. Paul David has defined a path dependent sequence of economic changes as one in which important influences upon the eventual outcome can be exerted by temporally remote events, including happenings dominated by chance elements rather than systemic forces.³⁴⁴ In such stochastic processes there is no fixed-point distribution that the system will automatically converge upon.³⁴⁵

³⁴⁴ P.D. David, ‘Clio and the Economics of QWERTY’, *American Economic Review*, 75, 2, (1985), p.332.

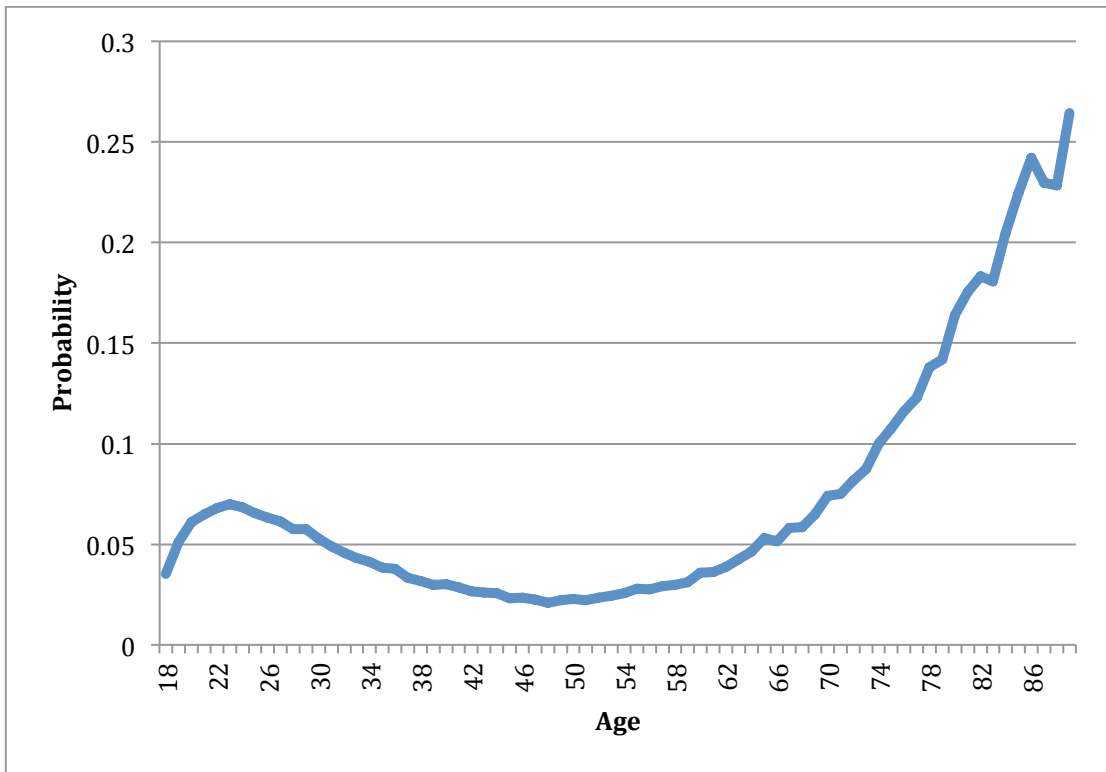
³⁴⁵ *Ibid*, p.332.

Moreover, in a path dependent system a small deviation away from the norm can have a greater impact on the final outcome if it occurs earlier on in time. An influx of unusually young/old members would have been amplified over a long period of time, but it would not have made much difference to the final outcome if it occurred very late in the branch's life span. One of the biggest attractions of a Monte Carlo simulation is that it can factor in statistical uncertainty, chance and path dependency.

All models are simplifications of reality, and necessarily involve making simplifying assumptions.³⁴⁶ The procedure used here involves creating 100,000 identical branches, and running them through a 50-year simulation. This generates a mean age distribution across all the branches, which represents the most probable outcome. In the first step we create 100,000 identical branches, each with 18 members and two members at each age between 20 and 28. To move the branch through a year involves making a series of assumptions about who will remain in the branch and who will be added to the branch. The probability of exit was calculated using Alfred Watson's data on the Oddfellows between 1893 and 1897, and is the product of the probability of death and the probability of withdrawal (voluntary exit or expulsion) at each age (**figure 3.9**). Obviously as members got older the chance of death increased (see **figure 3.10**). The chance of withdrawal increased dramatically from 18 to 23. This might reflect that some individuals joined to cover lost income whilst they were young and could not self-insure; once they had acquired their own capital reserves they left. Moving from 23 to 80+ the probability of withdrawal fell, reflecting the rising demand for sickness insurance as the chance of ill health increased.

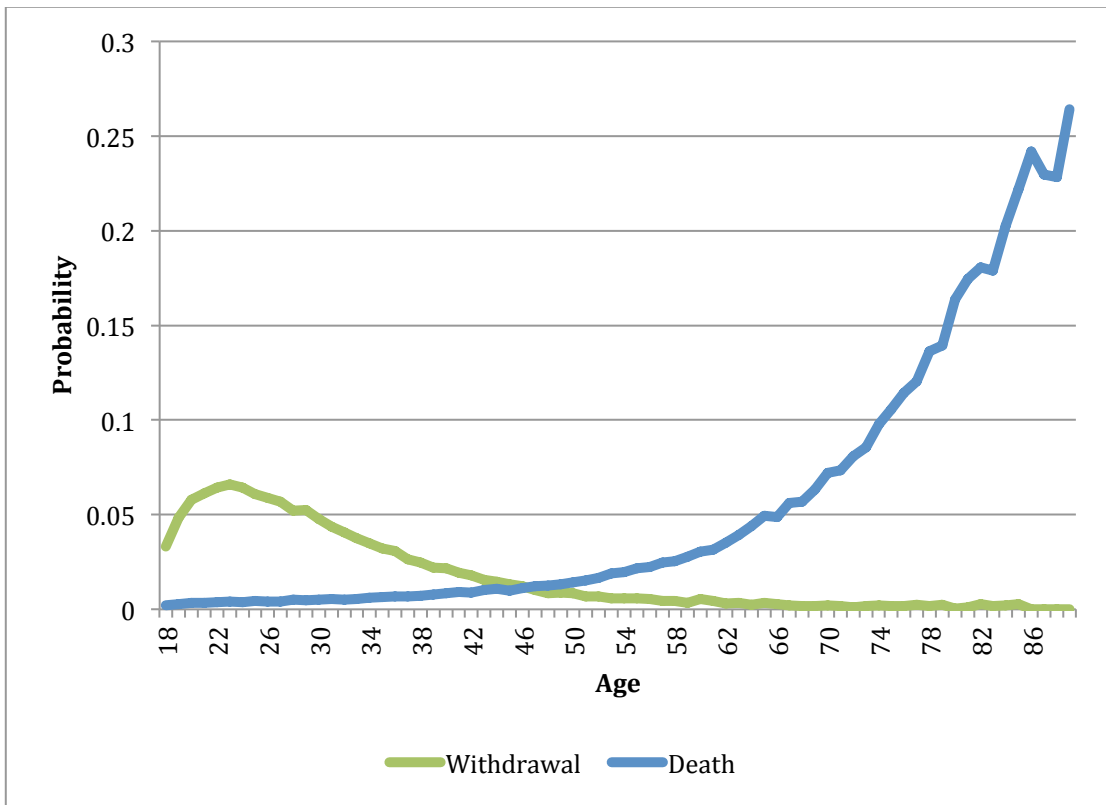
³⁴⁶ Schneider, 'Real wages', p.102.

Figure 3.9: Joint probability of withdrawal and death, members of the Oddfellows in Britain between 1893 and 1897.



Source: Watson, *An Account*, pp.138-141.

Figure 3.10: Probability of withdrawal, members of the Oddfellows in Britain between 1893 and 1897.



Source: Watson, *An Account*, pp.138-141.

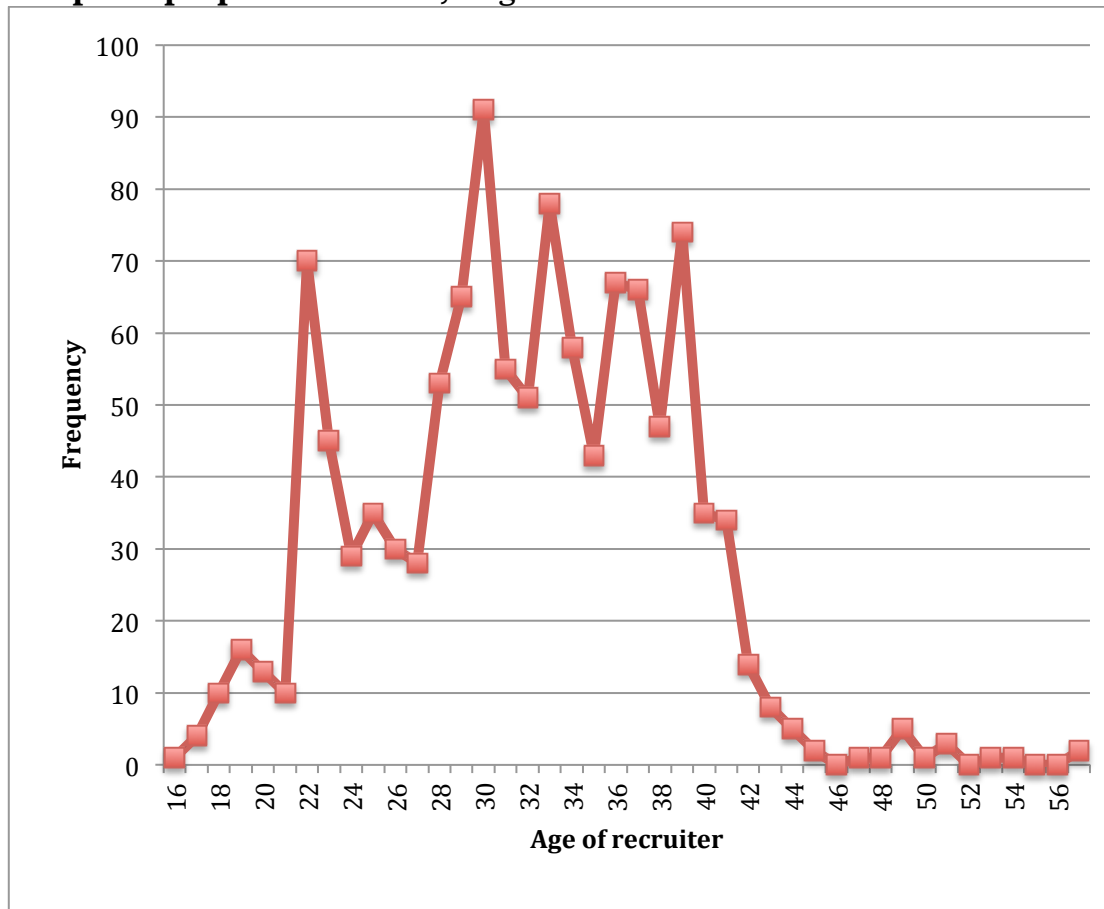
To add new individuals to the branch we have to make an assumption about how many members will recruit, and who will recruit. The number of recruiters is determined by a specified growth rate in each year. The methodology assumes that the growth rate fell as a society aged. The recruitment rates in different time phases are listed in **table 3.6** and have a second order polynomial function. This is a simplification, but it is realistic one. Younger branches recruited at a much higher rate and the decline had a nonlinear distribution.

The simulations assume that every member in the branch has an equal chance of recruitment, and therefore recruiters are selected at random. This is more problematic. In the sample of Foresters courts some age cohorts recruited more frequently (see **figure 3.11**). However it is impossible to use this data to calculate age specific probabilities of recruitment because we lack information on the age structure of the courts at every point in time. It could be that members aged 30 recruited more frequently than members aged 28 because there were more of them. The data from our sample of courts allow us to compute the probability of an individual being a certain age if they were a recruiter. What we would need to calculate is the probability of someone being a recruiter if they were a certain age. Assuming that all ages have an equal probability of recruitment is the best available option. In fact we might end up underestimating ‘age drift’ because we assume that the young had an equal chance of recruiting as the old, when in reality recruitment fell to the more experienced, and therefore probably older, members (as demonstrated in chapter 4).

Table 3.6: Recruitment rates used in simulations of branch aging process.

| Time since formation of society | Recruitment rate (new members per member) | |
|--|--|-----------------------|
| | Starting rate | Finishing rate |
| Year 1 to year 5 | 0.4 | 0.2 |
| Year 5 to year 10 | 0.2 | 0.085 |
| Year 10 to year 50 | 0.085 | 0.07 |

Figure 3.11: Frequency with which different age groups recruited in sample of proposition books, England 1842-1890.



Source: see source note to table 3.1.

Once identified each recruiter adds one new member to the branch. The final step in the simulation requires making an assumption about the age of these new members. More specifically, we make an assumption about the difference in age of the recruiter and the new member. Because we are interested in the likely effect of varying degrees of age homophily, the following analysis refers to four separate Monte Carlo simulations with different assumptions about the age of new members (i.e. four times 100,000 branches over 50 years). All the other assumptions discussed above are held constant. In the first model the mean age difference is 0 with a standard deviation of 8.78 (as in the sample) and we assume that the data are normally distributed. Therefore the most likely outcome is that the new member is the same age as their recruiters but that there is a (falling) probability as the age difference increases. In the second model we make a more optimistic assumption of a mean of 2 (the new member is 2 years younger than their recruiter) and a standard

deviation of 8.78. The third model uses the actual results from the sample of Foresters courts, with mean of 5.75 and a standard deviation of 8.78. The final model assumes a mean of 8 and a standard deviation of 8.78. Respectively, these models can be seen as ‘pessimistic’, ‘optimistic’, ‘real world’ and ‘very optimistic’. Obviously many of the assumption underpinning the following simulations are problematic. It is important to stress that this is an abstract counterfactual exercise and it is not intended to be an exact replica of the world it models. The main aim is to compare across the models to see if the different degrees of homophily led to age drift. Apart from varying the age difference of recruiters and new members, all the models make the same assumptions. Therefore even if these assumptions are deemed unrealistic this would affect all the models equally, and this would not explain any variation between the models.

In all four simulations there was a pronounced long-term age drift. **Figure 3.12** shows the change in the proportion of members at each age at the 21st and 41st year. As expected, the effect gets more pronounced moving through the simulations (**figure 3.13**). The crucial point is that age drift occurred when using the figures for our sample of courts (simulation 3) and when assuming a high degree of youth bias in the recruitment process (simulation 4).

One way to check the robustness of these results is to examine whether the outcome would be different if we ran more simulations. To test this we can compare the age distribution for simulation 3 using 10,000 and 100,000 branches. The difference between the two models was negligible (see **figure 3.14**). Given that the results converge whether we use 10,000 or 100,000 iterations it is highly unlikely that we would get a different result if we simulated more branches.

Figure 3.12: Change in the percentage of members at each age in simulations 1-4, 100k branch simulations.

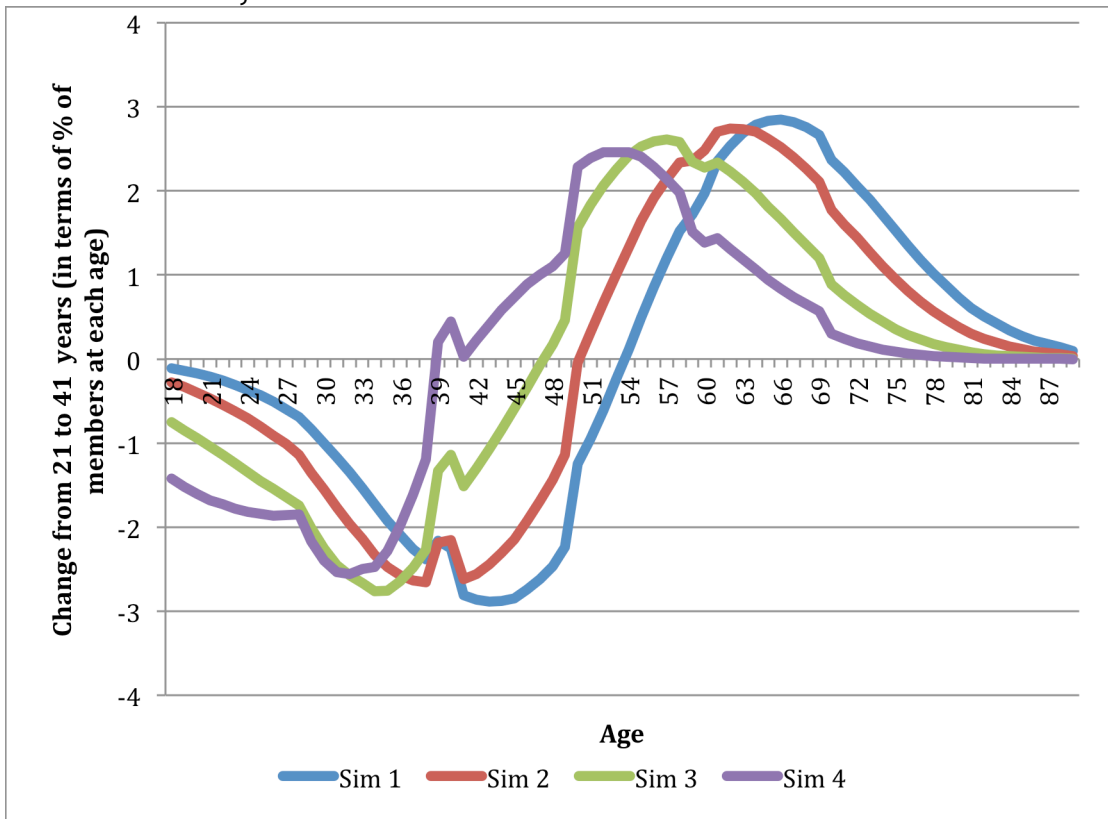


Figure 3.13: Mean age structure at 41 years in simulations 1-4, 100K branch simulation.

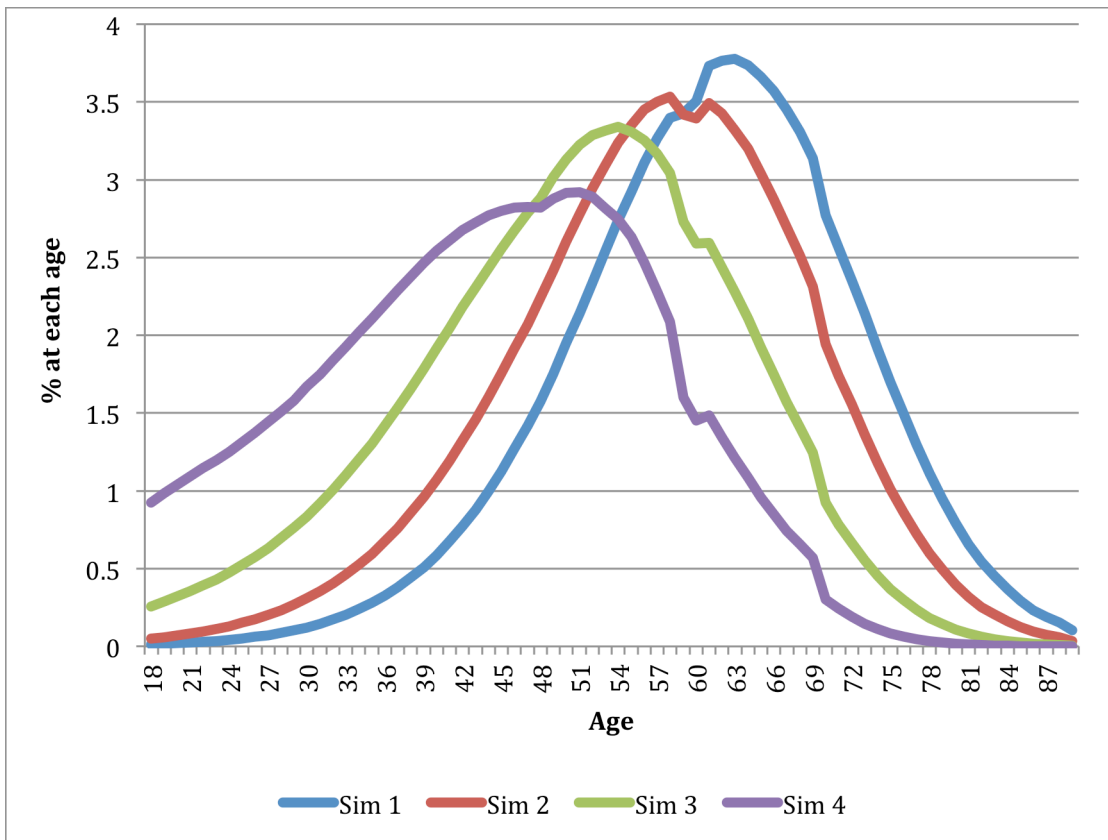
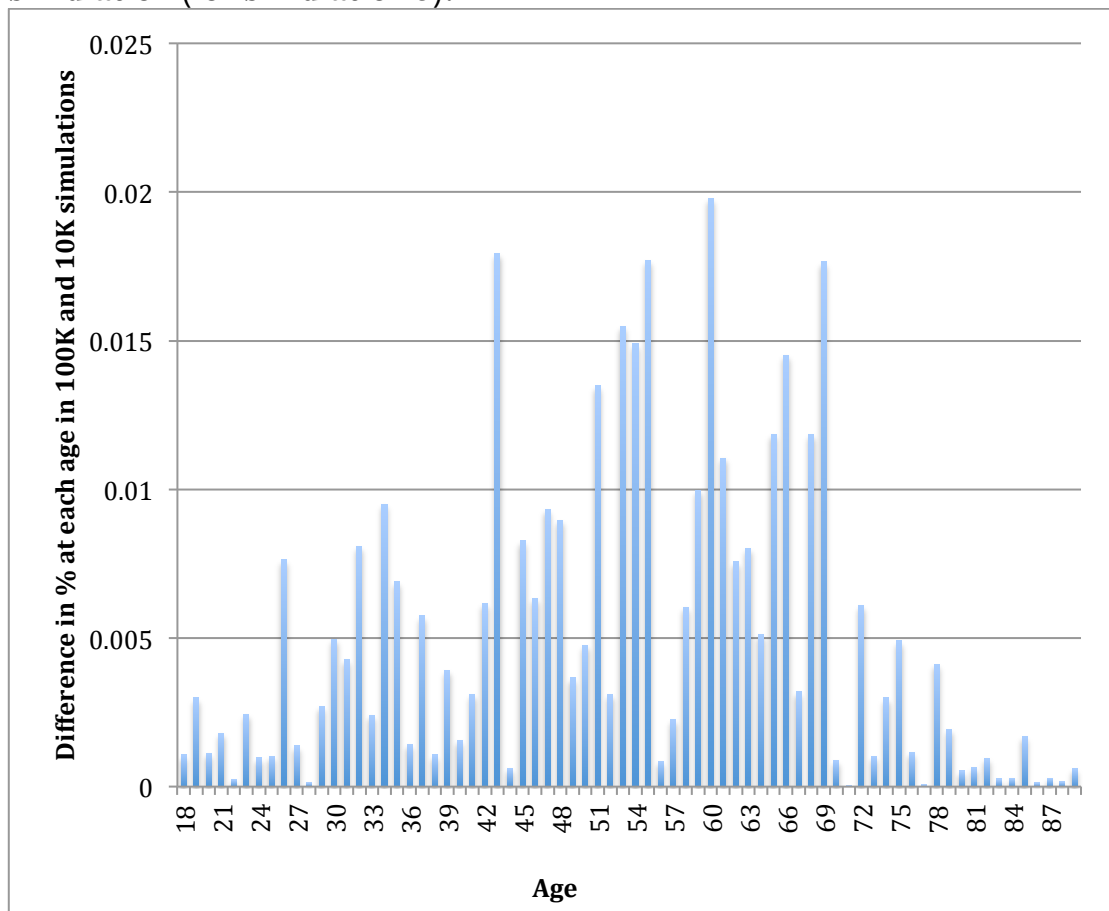


Figure 3.14: Difference between results of a 100k and 10k branch simulation (for simulation 3).



It is important to ascertain whether these results are realistic. **Figure 3.15** shows the average size of branches in the different simulations. Monte Carlo simulation is meant to generate (almost) all the possible futures of a system, so we inevitably generate branches that are improbably large or small. Hence why we focus on the mean of the multiple distributions. At 50 years the average simulated branch has between 266 and 353 members. This is larger than the average size of Foresters courts, but there were courts of this size. In 1911 around 20% of Foresters courts had more than 260 members.³⁴⁷ This suggests that these models are reasonably realistic.

The previous models have examined the impact of act homophily in the recruitment process on the aging population problem. Age homophily was not the only force at work. Friendly societies faced an inflow and an outflow problem. On the

³⁴⁷ Based on a random sample of 200 courts in 1911, see chapter 5 for discussion of the sampling process.

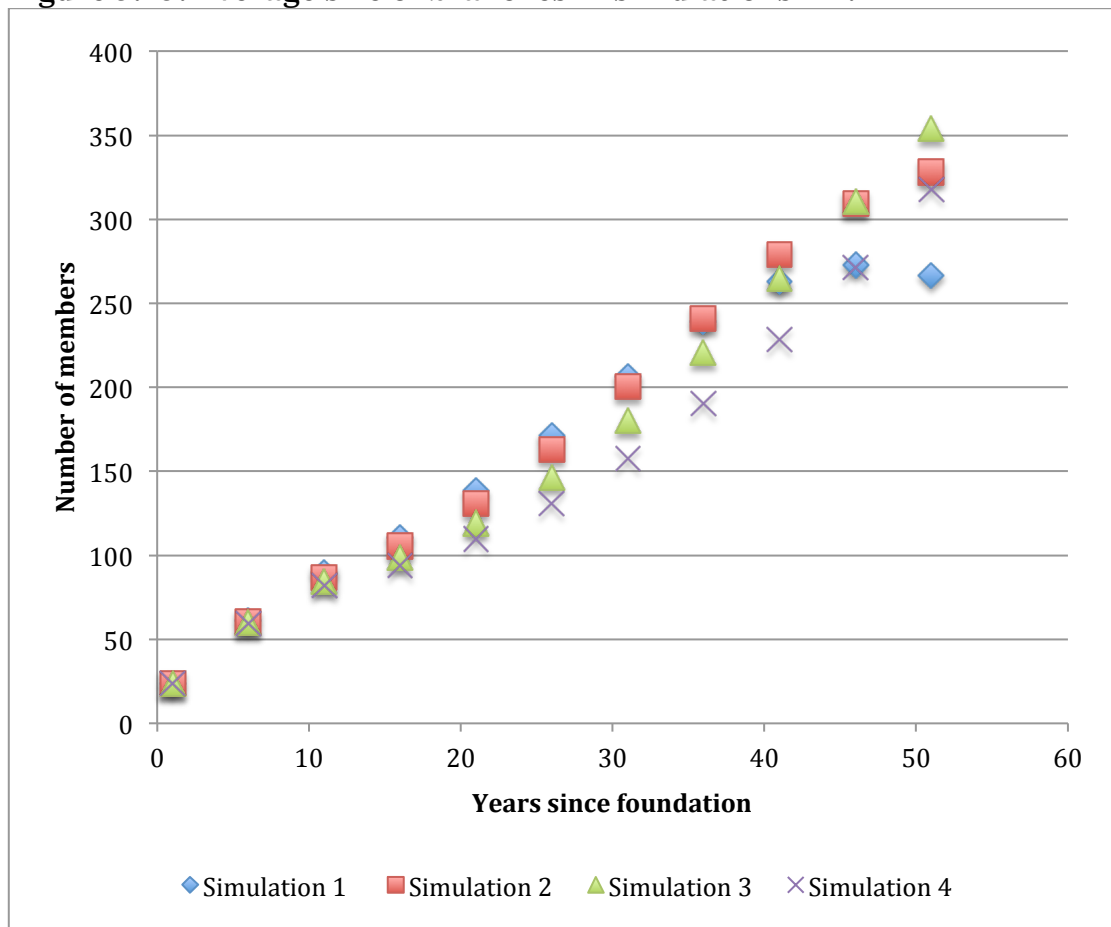
inflow side, recruitment rates were falling and new members were getting older (as demonstrated in **figures 3.2** and **3.3**). The outflow problem was a consequence of falling mortality rates and the passage of time. As lodges aged so too did the members in the lodge, meaning that without new recruits the average age naturally increased over time. In all of the previous models I have assumed that lodges recruited at a falling rate over time. This assumption is based on the empirical observation that this was indeed the case. However it is important to verify whether, in the absence of a falling growth rate, we still observe an aging population problem. Otherwise the results above might merely be evidence that as the growth rate fell, then the age distribution of lodges naturally shifted upwards to reflect the aging of the members in these lodges and the drying up of new members. This chapter is not claiming that age homophily was the only driver of the aging population process. The aim has been to test the extent to which age homophily in recruitment exaggerated age drift given the fact that lodges were recruiting at a falling rate as they aged. The Monte Carlo simulations have tried to model the evolution of lodges in the most realistic manner possible. However removing the assumption of declining growth rates is a good way to ‘sensitivity check’ the simulations and answer the purely counterfactual (and somewhat ahistorical) question as to whether the ageing population problem would have existed had lodges recruited at a constant rate over time.

The results of the sensitivity checks confirm the core findings of this chapter. In the first sensitivity check model I re-ran simulation 4, retaining all of the core assumptions but keeping the growth rate at a constant 40 per annum rather than at a falling rate over time. Even under this condition we observe age drift. Between the 11th and 41st year in the simulation the proportion of members aged 18- 30 and 31- 40 fell (a percentage change in the proportion of all members in between these ages of -2% and -11%), whilst the proportion 41-50, 51-60 and 61+ increased by a large amount (by 50%, 83% and 96% respectively).

In the second sensitivity check model I re-ran simulation 4 with all of the core assumptions constant but with a different proportion of members at various ages at the start of the simulation. This simulation tests whether the final results are simply a consequence of making a particular assumption about the initial age structure of lodges. In the original models above I assumed that lodges had 18 members, with two

at each age from 20 to 28. In the second sensitivity check I assumed that lodges started with 30 members, with one at each age from 18 to 49. The results confirm that age drift was not simply a consequence of the starting age distribution. As lodges moved through the years of the simulation the proportion of members in younger age cohorts fell whilst the proportion at older ages rose. There was a 71% and 28% relative fall in the proportion aged 18-30 and 31-40 between the 11th and 41st years of the simulation. In contrast there was a 24%, 133% and 1945% increase in those aged 41-50, 51-60 and 60+.

Figure 3.15: Average size of branches in simulations 1-4.



The initial four simulations probably exaggerate the severity of age drift. This is to be expected in the case of simulations 1 and 2, given that these models make more pessimistic assumptions about the age of new members than observed in reality. Simulations 3 and 4, using real world and optimistic figures as inputs, also exaggerate age drift. After 41 years the mean age of members was 50.7 (simulation 3) and 44.3 (simulation 4) (see **table 3.7**). In 1907 and 1929 only a few branches of 40 years of

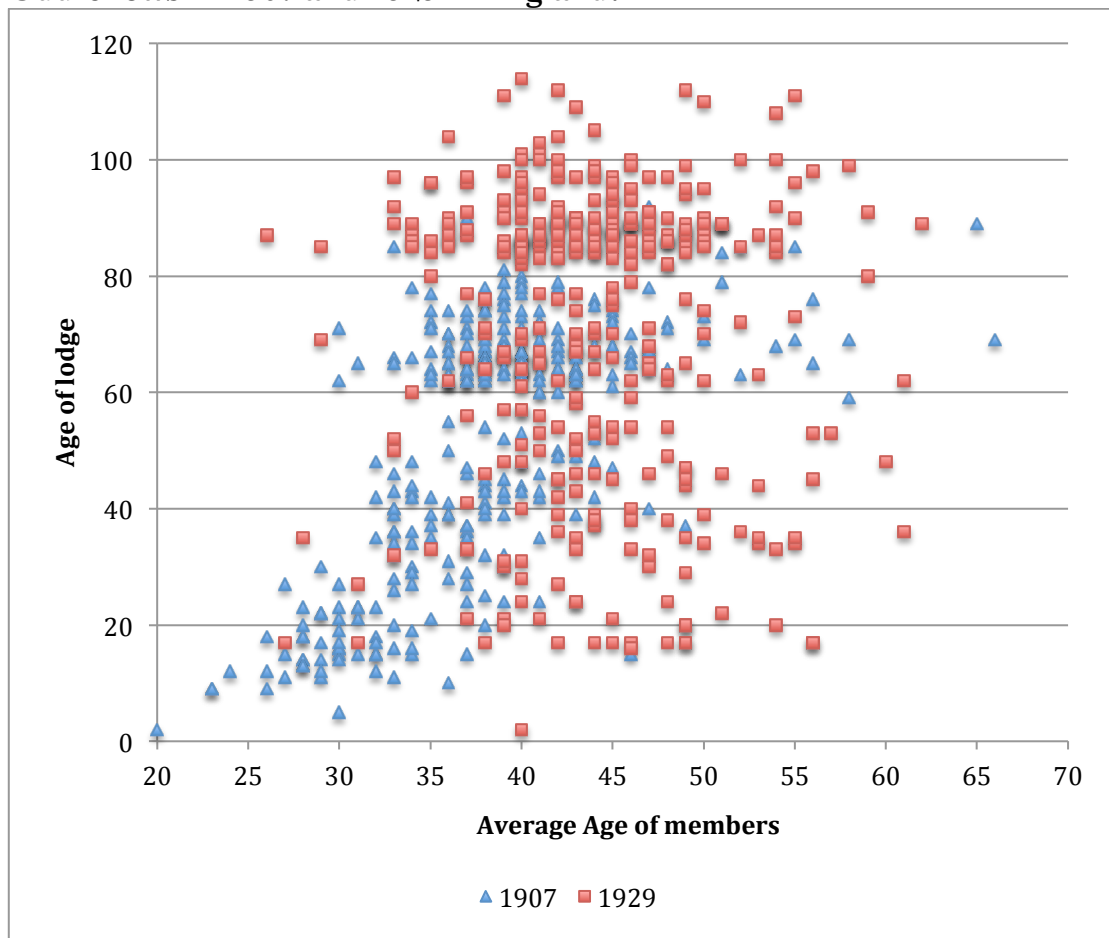
age or younger had a mean membership age of more than 50, however there were some (**figure 3.16**).

The main problem with these models is that the assumptions are static and do not allow for human agency. They assume that all members had an equal chance of recruiting in a given year, but it could have been the case that branches discouraged members from recruiting older members when the average age was too high. As discussed in chapter 1, branches could respond to an ageing membership and go on a recruitment drive for younger members. These simulations are too rigid and do not allow for this type of behaviour. Consequently they exaggerate age drift. However, to reiterate, the main purpose has been to demonstrate that even ‘youth biased’ age homophily could lead to an ageing membership problem and this conclusion is valid even if these results overestimate the severity of the problem.

Table 3.7: Mean age of members between year 1 and year 51 in 100k branch simulations.

| | Year | | | | | | | | | | |
|--------------|------|------|------|------|------|------|------|------|------|------|------|
| | 1 | 6 | 11 | 16 | 21 | 26 | 31 | 36 | 41 | 46 | 51 |
| Sim 1 | 25.2 | 30.8 | 36.4 | 41.7 | 46.6 | 50.9 | 54.8 | 58.2 | 61.0 | 63.4 | 65.3 |
| Sim 2 | 24.7 | 28.8 | 33.4 | 38.2 | 42.7 | 46.9 | 50.7 | 54.1 | 57.0 | 59.4 | 61.3 |
| Sim 3 | 24.2 | 26.3 | 29.8 | 33.8 | 37.6 | 41.3 | 44.7 | 47.9 | 50.7 | 53.2 | 55.2 |
| Sim 4 | 23.7 | 24.4 | 27.0 | 30.2 | 33.2 | 36.2 | 39.0 | 41.8 | 44.3 | 46.5 | 48.5 |

Figure 3.16: Scatter plot of average age of members and lodge age, Oddfellows in 1907 and 1929 in England.



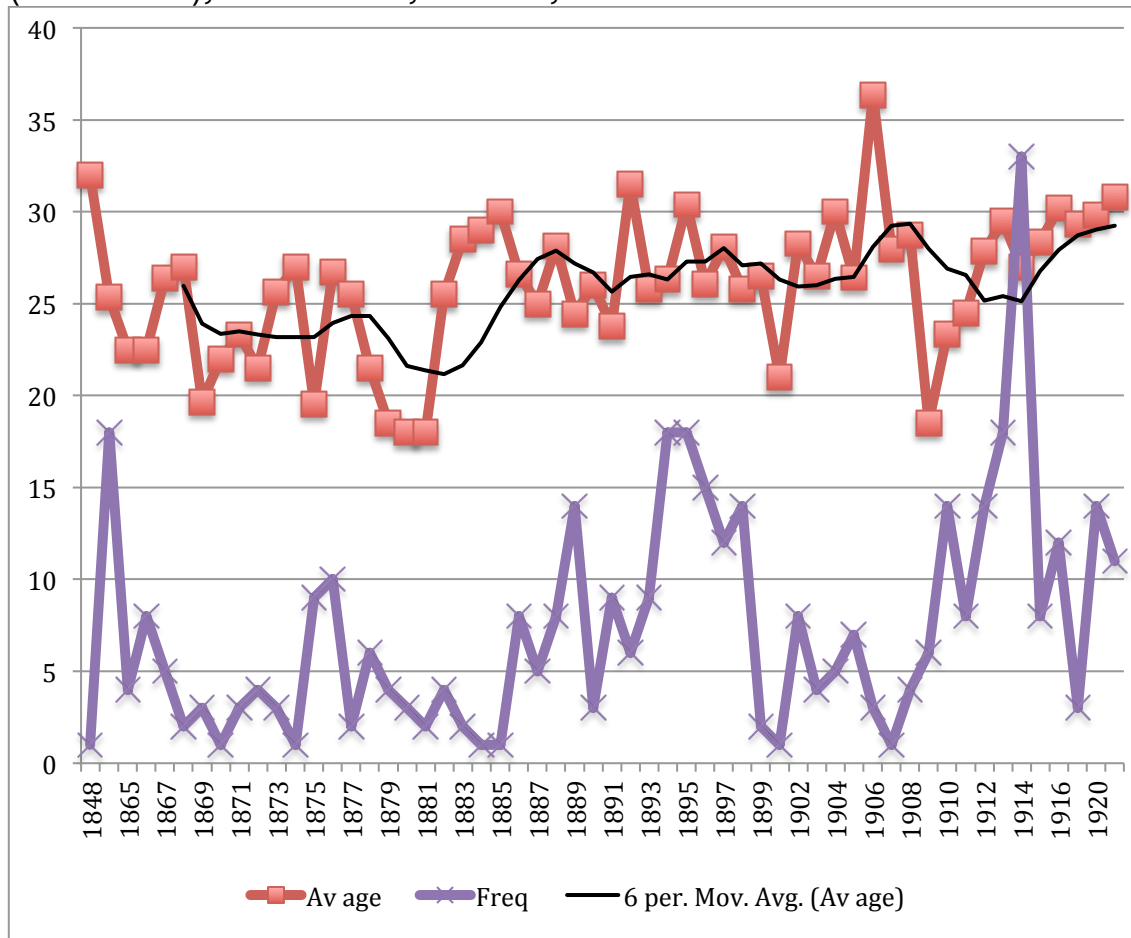
Source: A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1907 (Manchester, 1907) (OOA); A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1929 (Manchester, 1929) (OOA).

Figures 3.17 to 3.20 trace the pattern of recruitment in four branches. The Stawell, Camberwell and Loyal Goldminers lodges belonged to the Oddfellows and were located in Victoria (see chapter 2 for discussion of the data). The Queen of the Valley court in Ilkeston has already been discussed in this chapter. The membership registers for these branches are valuable because they cover a long period of time, making it easier to detect any sudden changes in the number of recruits and their average age. Each graph shows the number of admissions per annum, the average age of the new members per annum and a six-year moving average of the later. If branches were recruiting according to the ‘young blood theory’ then we would expect to see periodic sharp increases in the number of admissions and corresponding falls in the average age of the new members. In the Camberwell and Loyal Goldminers lodges there were sizable increases in admissions in 1914 and 1894-1905. In both instances the average age of new members in the year remained flat, meaning that the

average age of the lodge would have fallen. However except for these two instances there was no clear pattern in how these four lodges recruited. The average age of new members per annum bounced erratically between 20 and 30. The total number of recruits per annum was equally volatile, and it does not seem that these lodges had a clear plan. In the Camberwell and Stawell lodges there was a gradual upward trend in the average age of recruits per annum, consistent with the model of ‘age drift’ proposed above.

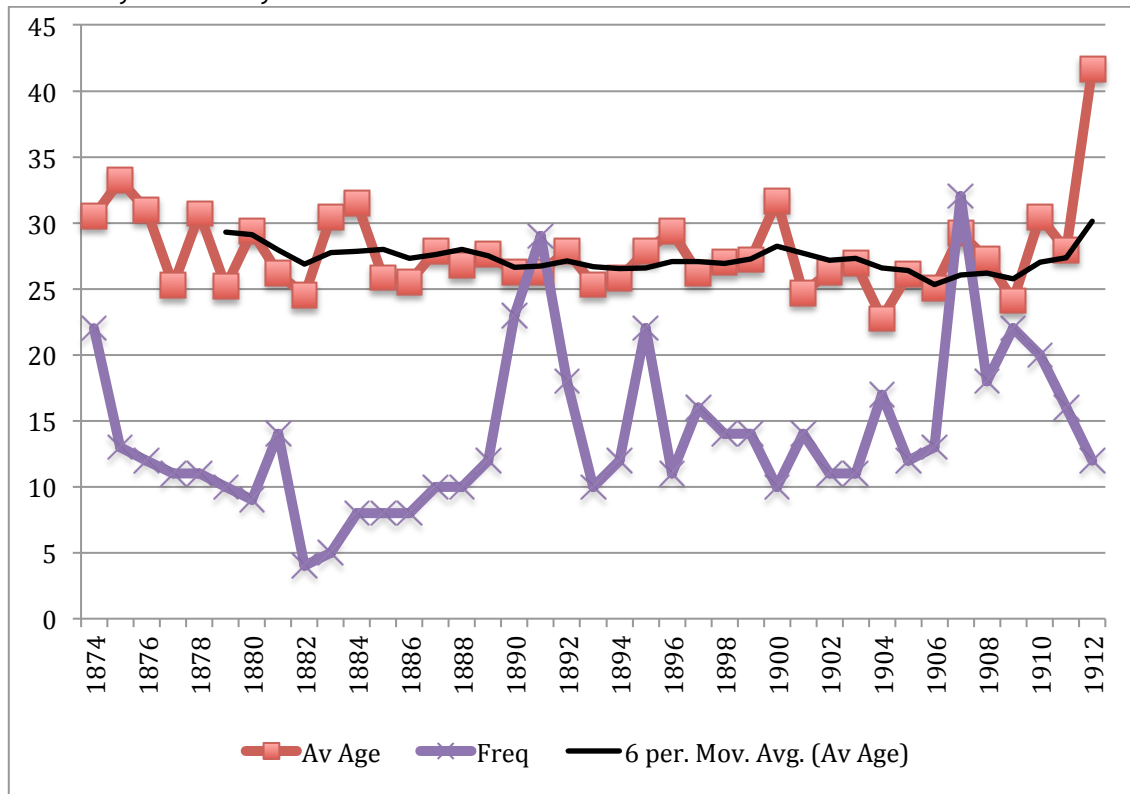
In **figures 3.21 and 3.22** the age of each new members has been plotted on the y-axis and the order of entry on the x-axis (although the labels have been changed to show the year of entry) for the Camberwell and the Queen of the Valley branches. The same time series plots for the other branches were identical. Visual inspection suggests that these time series are *stationary* – meaning that the mean and the variance are constant over time. A stationary time series is evidence of a stochastic process. **Table 3.8** present the results of series of Dickey-Fuller tests for non-stationarity. In all four branches the average age of new members per annum and the age of each new member in order of admission were stationary time series. The number of admissions per annum was stationary in every instance with the exception of the Loyal Goldminers lodge. This was a consequence of the sharp spike and then upward trend in admissions between 1894 and 1910. However it is interesting that there was no corresponding deviation away from an essentially random pattern in the age of recruits – indicating that the members had not succeeded in attracting a number of particularly young individuals if that had been the aim.

Figure 3.17: Pattern of recruitment in the Camberwell lodge (Oddfellows), Camberwell, Victoria, 1848-1921.



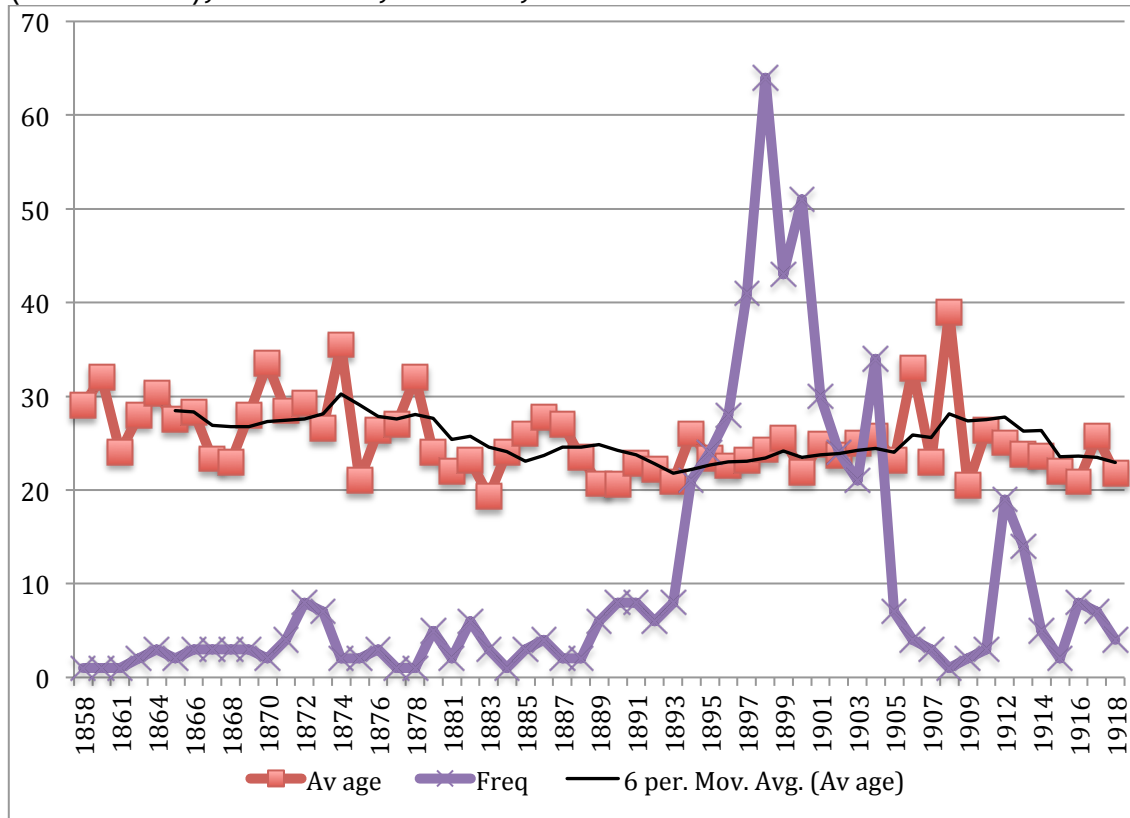
Note: 'Av. Age' is Average age of new members, 'Freq' is number of members recruited that year, '6 per. Mov. Avg.' is 6 period moving average of average age of recruits. *Source:* Loyal Camberwell Lodge Membership Register, (NBA.Z262, Item 237).

Figure 3.18: Pattern of recruitment in the Stawell lodge (Oddfellows), Stawell, Victoria, 1874-1912.



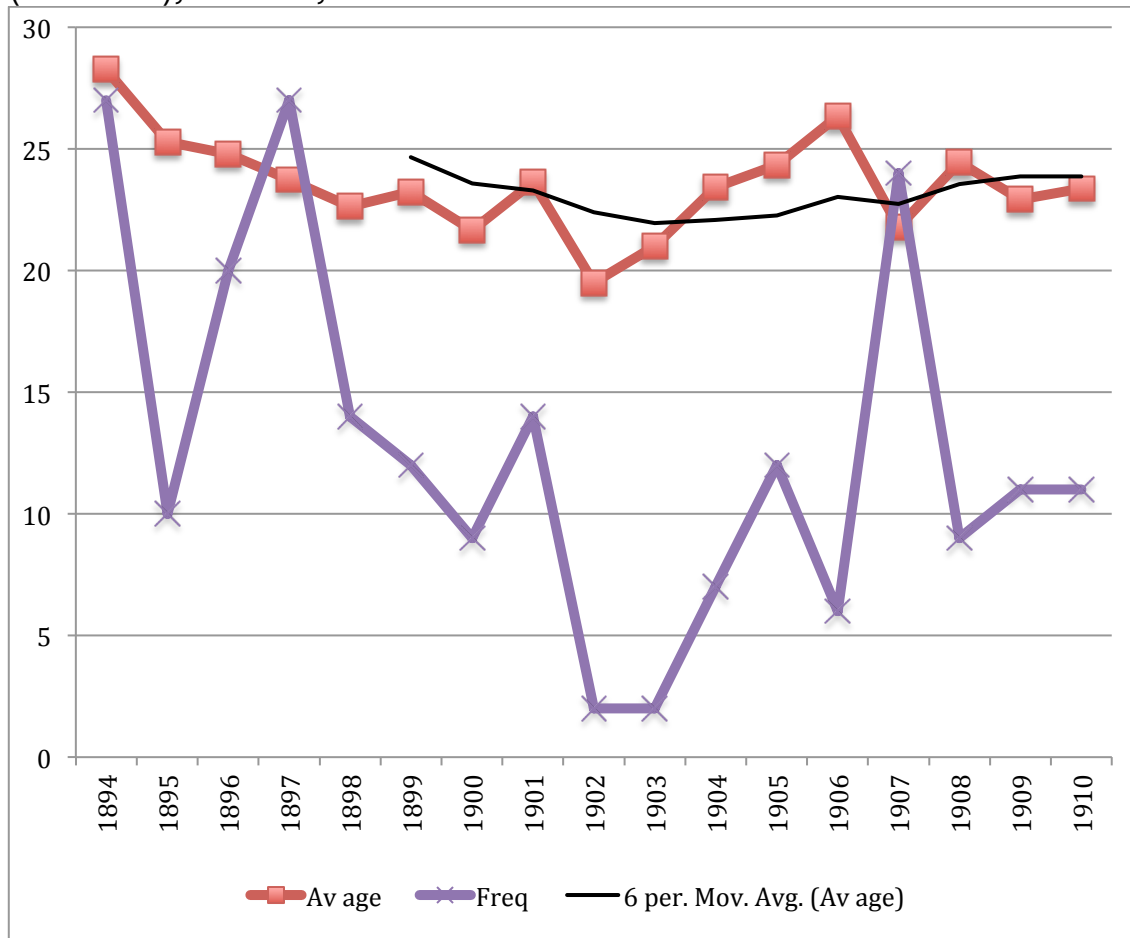
Source: Loyal Stawell Lodge Membership Register, (NBA.Z227 Box 410).

Figure 3.19: Pattern of recruitment in the Loyal Goldminers lodge (Oddfellows), Sandhurst, Victoria, 1858-1918.



Source: Loyal Gold Miner's Pride Lodge Membership Register, (NBA.Z227 Item 74).

Figure 3.20: Pattern of recruitment in the Queen of the Valley Court (Foresters), Ilkeston, 1894-1910.



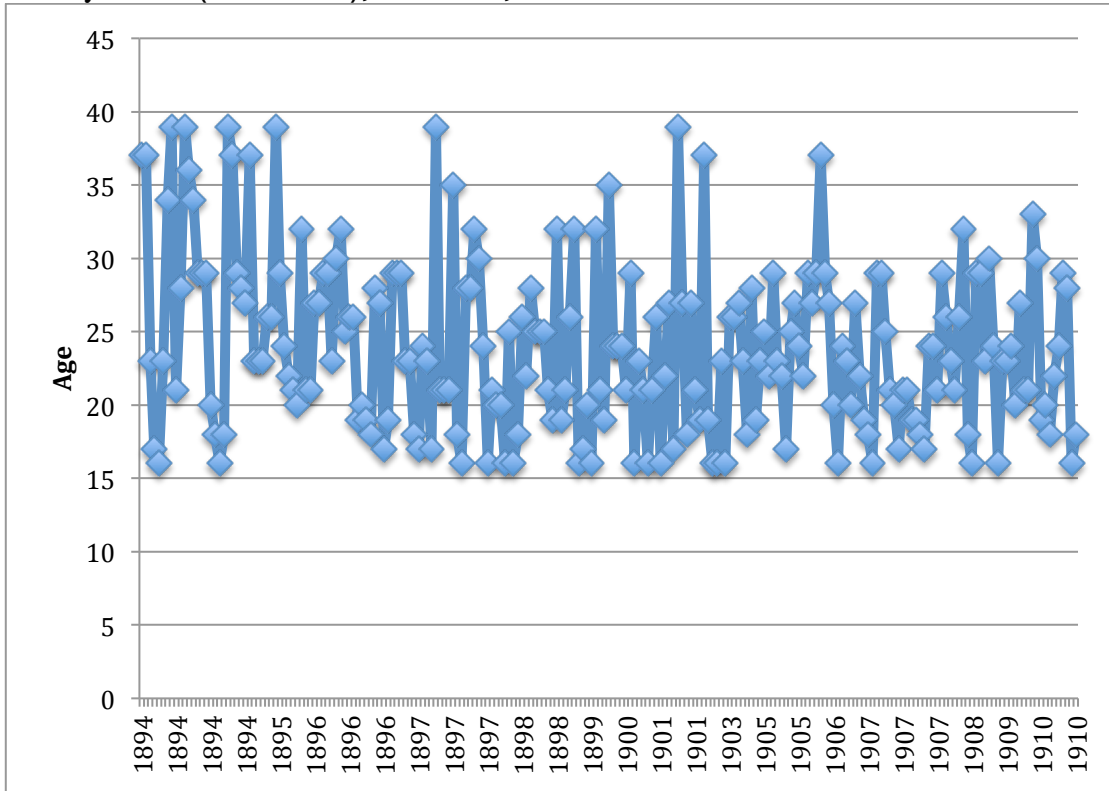
Source: Membership Register of the Queen of the Valley Court, Ilkeston, (FHT, item D3/118).

The Dickey-Fuller test might be too rigorous. Members may not have focused on the specific age of new members, but rather on a simpler rule of thumb; such as whether the recruit was younger than the previous recruit or more generally whether they seemed young when compared to a run of prior recruits. **Table 3.9** presents results for a number of run tests. The runs test is a non-parametric test that can be used to decide if a series is from a random process. A run is defined as a series of increasing or decreasing values.³⁴⁸ If a time series has too many or too few runs, then it is probably not random.³⁴⁹ If branches were periodically recruiting a large number of young members we would expect an abnormally high number of runs. In all instances we fail to reject the null hypothesis that the series was random (at the 0.05 significance level) – again, suggesting that the selection process was random.

³⁴⁸ J.V. Bradley, *Distribution-free statistical tests* (Englewood-Cliffs, 1968), chapter 12.

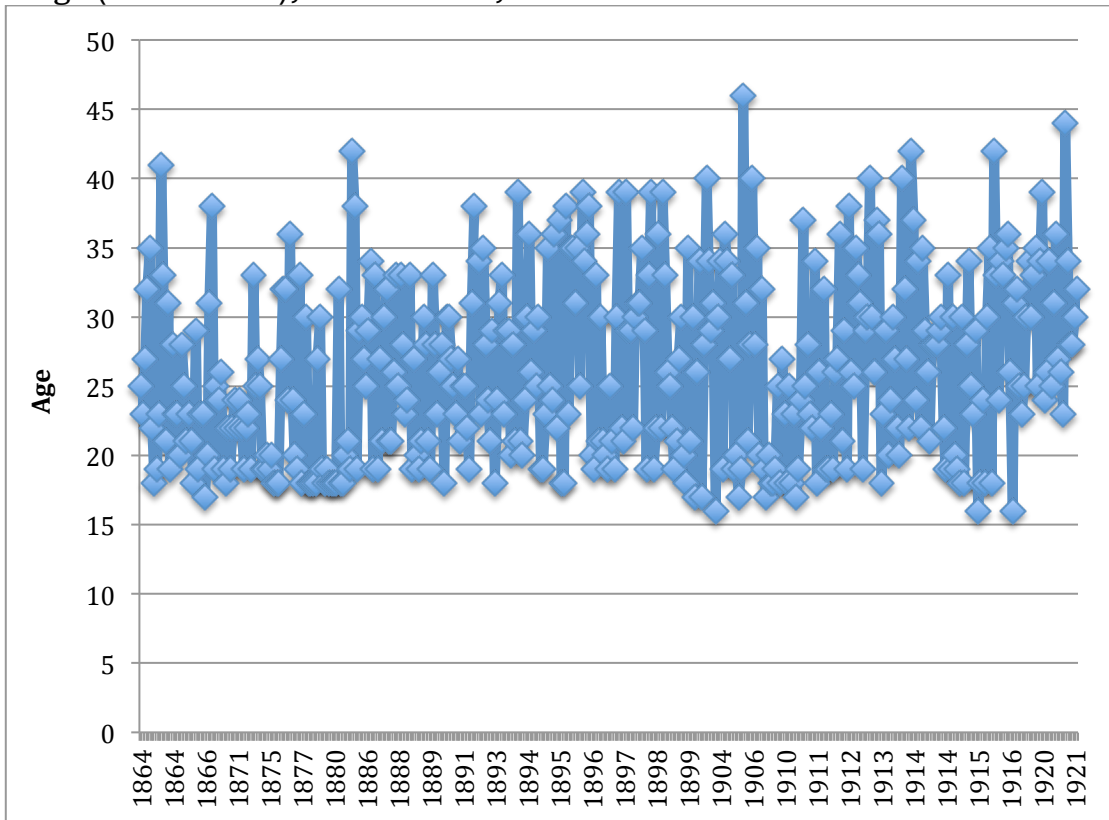
³⁴⁹ In a random series the probability of the $(I+1)^{\text{th}}$ value is larger or smaller than the I^{th} should have a binominal distribution. The test is based on this intuition.

Figure 3.21: Age of new members in order of admission, Queen of the Valley court (Foresters), Ilkeston, 1894-1910.



Source: see source note to figure 3.20.

Figure 3.22: Age of new members in order of admission, Camberwell lodge (Oddfellows), Camberwell, 1864-1921.



Source: see source note to figure 3.17.

Table 3.8: Dickey-Fuller tests for non-stationarity in the recruitment pattern over time in four branches of the Foresters and the Oddfellows, England and Victoria.

| Variable | Branch | | | |
|--|-------------------------------|----------------------|----------------------------|--------------------|
| | Queen of the Valley, Ilkeston | Camberwell, Victoria | Loyal Goldminers, Victoria | Stawell, Victoria |
| Average age per annum | -3.669 (0.0046) | -4.623 (0.0001) | -6.838 (0.000) | -4.164 (0.0008) |
| Number of admissions per annum | -3.726 (0.0038) | -4.623 (0.0001) | -1.996* (0.2884) | -3.970 (0.0016) |
| Age of new member in order of admission | -11.840 (0.000) | -19.474 (0.000) | -23.076 (0.000) | -19.474 (0.000) |

Note: Dickey-Fuller test statistic in cell, p-value in parenthesis. * indicates non-stationary series at 10% level.

Table 3.9: Run tests for non-randomness in recruitment pattern over time in four branches of the Foresters and the Oddfellows, England and Victoria.

| Branch | Run test statistic for non-random series | |
|--------------------------------------|--|---|
| | Average Age per annum | Age of new member in order of admission |
| Queen of the Valley, Ilkeston | -0.488 (0.626) | -2.74 (0.006) |
| Camberwell, Victoria | -1.768 (0.077) | -1.855 (0.064) |
| Loyal Goldminers, Victoria | -0.809 (0.418) | -1.065 (0.287) |
| Stawell, Victoria | 0.004 (0.997) | -1.409 (0.159) |

Note: Test-statistic in cell and p-values in parenthesis. Test statistic larger than 1.96 means we reject the null hypothesis of randomly generated series.

Conclusion

Those historians, social scientists and economists who have studied friendly societies and fraternal societies have repeatedly argued that there were positive externalities to social ties between members. In this interpretation these societies are heralded as an example of the benefits of social capital. The social ties between members allowed societies to effectively screen new members and overcome adverse selection.³⁵⁰ Friendly societies triumphed where commercial insurers failed precisely because they

³⁵⁰ Gottlieb, 'Asymmetric information'; Emery, 'Fraternal Sickness Insurance'.

were able to overcome information asymmetries. This chapter has questioned this argument. There was a countervailing force undermining friendly society solvency: ‘homophily’ – the tendency of individuals to be connected to people similar to them. If members befriended individuals of a similar age in their external social networks and then recruited from this pool, then the selection process was actually flawed. As a branch aged so too would the new recruits. This chapter has demonstrated that a degree of ‘youth biased’ age homophily did influence recruitment, and that it is highly probable that this led to an ageing population problem. This suggests that latching onto the social networks of members was not such a good idea after all.

This conclusion supports the argument made in chapter 1 that friendly societies were right to move from a pay-as-you-go model to a funded model. In the long run the pay-as-you-go plan was only viable, and optimal, if societies held down the average age of members. Yet by the end of the nineteenth century it was clear the movement had an aging membership. In the absence of actuarial reform this would have been even more crippling. Had societies remained pure pay-as-you-go insurers the spiralling increase in the cost of supporting the old would have been born entirely by young and future members, with the risk that this would have been so expensive that many societies would have had to close. The move to actuarial pricing ensured that a proportion of the claims of older members were paid for from accumulated capital. This undoubtedly saved a great many societies from ruin.

Chapter 4 – Social capital in decline? Evidence from Britain and Australasia

Introduction

In 1907 the High Chief Ranger of the English Foresters complained that:

‘Brotherhood is forgotten and members are impressed with one fact only, that is that they have joined a huge sick and burial society. That is exactly what our forefathers did not teach, preach or practice in the infancy of our organisation.’³⁵¹

The same gripe could be heard in other societies. In 1888 JF Wilkinson of the Oddfellows noted that:

‘90% of our members do not put in an appearance - save the specially summoned meeting or on a quarter night... [Participation has become a]... mere routine of receiving contributions and going through the modicums of business’.³⁵²

At the other side of the planet in 1910 the Grand Master of the New South Wales district of the Oddfellows urged lodges to:

‘Try amusements that will have the effect of bringing members to their lodge, not just to pay the contributions and go away, but to stay and feel that the working of the Lodge depends on their presence. Then our membership would increase more rapidly, for one could feel that the lodge room was a home... that you would like to take your friends to.’³⁵³

All three individuals were commentating on the widespread notion that the social and cultural character of the friendly society movement mutated over the nineteenth and early twentieth centuries; that sociability, conviviality and widespread participation had been eroded, and that societies had become mere insurers. This chapter explores

³⁵¹ Weinbren, *The Oddfellows*, p.184.

³⁵² *Ibid.*, p.163.

³⁵³ *Report of the Grand Master and Quarterly Financial Statement of the Sydney District of the MUIOOF, July 1910* (Sydney, 1910), p.2.

this theme in England and Australasia, drawing on previously unused archival material and newly compiled data sets.

As their name implies, friendly societies represented an attempt by working class individuals to meet their social and convivial needs as well as to insure against the hazard of sickness and death.³⁵⁴ The desire for fellowship, status and the excitement of ritualism were important factors behind the popularity of the movement.³⁵⁵ Participation gave an individual access to a dense and intimate social network. Some historians have argued that in the early nineteenth century lodges served to reconstitute *gemeinschaft* communities based on fictive kinship relations between brothers.³⁵⁶ Yet over the century British friendly societies went from small locally organised 'box clubs' to large, bureaucratic, business-like insurance organisations.³⁵⁷ The lodge room became increasingly peripheral in members social lives. Branches met less frequently and convivial practices were marginalised.³⁵⁸ Meetings moved from pubs to more 'respectable' spaces, like schools and mechanics institutes. By the end of the nineteenth century most societies were principally committed to administering sickness insurance, and had adopted a range of impersonal bureaucratic practices.³⁵⁹ In 1913 a Past Grand Master of the Oddfellows complained that lodge nights were 'a bore', and a far cry from 'the happy period when the Noble Grand was wont, little caring for musical accompaniment, to lead off with a catchy chorus song' and when 'happiness reigned supreme'.³⁶⁰ Accompanying these changes, societies had de-ritualised. In Britain conducting ceremonies and the wearing of regalia became increasingly rare.³⁶¹ According to the Grand Master of the Oddfellows in 1914, 'ritual had fallen into utter disuse'.³⁶² Participation in the governance of the societies also waned. How to increase attendance became an ever-

³⁵⁴ Gosden, *Self-help*, p.vii.

³⁵⁵ Johnson, *Saving and Spending*, pp.9, 65-67; Offer, 'Between the gift', pp.450-476.

³⁵⁶ Gorsky, 'The growth' p.507; B. Glenn, 'The Rhetoric of Fraternalism: Its Influence on the Development of the Welfare State, 1900-1935', *Studies in American Political Development*, 15, 2, (2001), p.221; Clawson, 'Fraternal Orders', p.689.

³⁵⁷ Cordery, *British Friendly Societies*, pp.12-29, 150-151; N. Doran, 'Risky Business: Codifying Embodied Experience in the Manchester Unity of Oddfellows', *Journal of Historical Sociology*, 7, 2, (1994), pp.131-154; although this was a transition with earlier roots, E.K. Wallace, 'The Needs of Strangers: Friendly Societies and Insurance Societies in Late Eighteenth-Century England', *Eighteenth-Century Life*, 24, 3, (2000), pp.53-72.

³⁵⁸ Weinbren, *The Oddfellows*, pp.120-121.

³⁵⁹ Gosden, *The Friendly Societies*, pp. 215, 220.

³⁶⁰ Weinbren, *The Oddfellows*, pp.144-145.

³⁶¹ Gosden, *Self-help*, p.49; Weinbren, *The Oddfellows* pp.83, 87-98, 218;

³⁶² Weinbren, *The Oddfellows*, p.218.

present topic of discussion in the *Oddfellows' Magazine* in the 1880s and 1890s and the Board of Directors even sponsored an essay to see if a solution could be found.³⁶³

A number of British historians have argued that the changing social and cultural character of the friendly societies contributed to their demise. PHJH Gosden has argued that it was not merely the liberal welfare reforms that led to their decline, but also the shortening of the working week, the introduction of annual holidays and the consequent widening in the opportunities for recreation.³⁶⁴ The National Health Insurance (NHI) legislation of 1911 undoubtedly changed the way friendly societies functioned. Weinbren has demonstrated that officials were placed under an extraordinary administrative burden, making meetings even more officious and bureaucratic. The effect was so severe that many lodges decided to pay for secretarial work, eroding the principle of voluntary self-governance by the members.³⁶⁵ In 1915 the *Oddfellows' Magazine* complained that the legislation had turned members into 'actuarial friendly society men rather than actual friendly society men [whose] souls were pawns to the devil of arithmetic'.³⁶⁶ Alborn has also suggested that the legislation set off a terminal decline in ritualism and self-governance.³⁶⁷ Others have argued the Act merely accelerated a longer-term trend. Cordery has explored the sustained attack on conviviality from inside and outside the friendly societies from the mid-nineteenth century onwards, demonstrating that the tension between solvency and sociability arose at the inception of the movement.³⁶⁸ For Daunton 'serving on committees, taking part in rituals with regalia and a culture of fraternity were losing their appeal before the first World War'.³⁶⁹ Johnson has gone even further, and suggested that very few members joined for social reasons, and that participation was always an economic and individualistic decision.³⁷⁰

³⁶³ Weinbren, *The Oddfellows*, pp.144-5; James and Weinbren, 'Getting a Grip', pp.95-96; Green and Cromwell, *Mutual Aid*, pp.18, 35; P.G. Ismay 'Trust Among Strangers: Securing British Modernity by way of Friendly Societies, 1780s-1870s', (University of California, Berkeley, Ph.D thesis, 2010), p.141.

³⁶⁴ Gosden, *Self-Help*, p.vii.

³⁶⁵ Weinbren, *The Oddfellows*, p.148.

³⁶⁶ *Ibid.*, p.150.

³⁶⁷ Alborn, 'Senses of Belonging', p.566.

³⁶⁸ Cordery, *British Friendly Societies*, pp.81-83, 174-176.

³⁶⁹ Daunton, *State and Market*, p.265; see also Fisk, *Mutual Self-help*, pp.177-8.

³⁷⁰ Johnson, *Saving and Spending*, pp.213-2.

There are a number of unresolved issues in the existing literature. Firstly, the timing of these changes is disputed. Weinbren has emphasised a rapid transformation following the NHI legislation while others like Daunton and Cordery have argued for a more gradual shift. This confusion stems, in part, from the poor empirical foundations of the debate. Historians have relied heavily on anecdotes – the most common type of evidence being statements by high-ranking officials bemoaning declining participation. Lodge-level records might give a different perspective. Moreover officials could have been suffering from a form of intergenerational nostalgia. The first section of this chapter focuses on England and seeks to place the existing historiographical debate on a more solid empirical foundation by drawing on a selection of micro-historical case studies. The results strongly support a pessimistic interpretation of the social importance of the friendly society movement in Britain. Over the nineteenth century local branches ballooned in size, met less frequently and attendance fell. Indeed participation in lodge governance was persistently low throughout the period. A small clique of members tended to dominate recruitment and office holding.

The second section of the chapter pans out to the international level. The existing literature on the changing social and cultural character of the friendly society movement is too exclusively focused on Britain. The contrasting experience of the friendly societies in Britain and the fraternalists in the US is striking. Over the late nineteenth and early twentieth centuries fraternalism became increasingly socially and culturally vibrant.³⁷¹ At the start of the twentieth century Charles Harger noted that ‘the lodge has become *the* social force of many a town’.³⁷² In 1949, looking back to the 1920s, one elderly fraternalist remembered a time ‘when every building went up, we were called on to dedicate it, [and] when there was a burying every lodge turned out, arguing to see who would lead the funeral’.³⁷³ Ritual activities became a central feature of the movement.³⁷⁴ North American fraternalism will be explored in full detail in the final chapter, but the very different cultural dynamics of the

³⁷¹ As explored by a number of historians, see J.J. Brumberg and F.E. Dudden, ‘Masculinity and Mumbo Jumbo: Nineteenth-Century Fraternalism Revisited’, *Review in American History*, 18, 3, (1990), pp.365-366; and M.C. Carnes *Secret Ritual and Manhood in Victorian America* (New Haven, 1989).

³⁷² C.M. Harger, ‘The Lodge’, *Atlantic Monthly*, 37, (April, 1906), in *Secret Societies*, p.25.

³⁷³ Lehman, ‘It takes three to make a lodge’, p.68.

³⁷⁴ C. Mertz, ‘Sweet land of secrecy: the strange spectacle of American fraternalism’, *The Harper’s Magazine*, 154, (1927), in *Secret Societies*, p.57.

movement demonstrates that the trajectory in Britain was not inevitable. Adopting a comparative perspective, the second half of this chapter focuses on the ‘settler societies’ of Australia and New Zealand. Some Antipodean officials were also concerned about disengagement. Yet the transition from ‘box clubs’ to insurance organisations was less complete than in Britain. Branch based societies were more dominant than in Britain, and tended to be much smaller and more socially intimate. Local branches met more frequently and retained ritual practices that had become less important than in Britain. There were a number of forces behind the persistent cultural and social importance of the friendly societies in Australasia, but pivotal were the relative youth of the movement and the higher rates of initiation into and migration between branches. Branches were important hubs of social capital in frontier like regions, necessitating activities that strengthened the bonds between members and ‘strangers’.

Finally, this chapter contributes to the broader sociological literature on social capital. Social capital is a contested concept that can be defined as the sum of the resources, actual or virtual, that accrues to an individual or a group by virtue of possessing a durable network of more or less institutionalised relationships of mutual acquaintance and recognition.³⁷⁵ Measuring the stock of social capital at the collective level is problematic. In Putnam’s work it is quantified by indicators like expressions of trust, newspaper readership figures and, crucially, participation in voluntary associations.³⁷⁶ In this framework an increase in the total number of members is presented as indicative of an increase in the stock of social capital.³⁷⁷ This static approach ignores the complex reciprocal relationship between organisations and social capital formation. The amount of social capital generated by an organisation

³⁷⁵ P. Bourdieu, *An invitation to reflexive sociology* (Chicago, 1992), p.119; for other approaches see A. Portes, ‘The Two Meanings of Social Capital’, *Sociological Forum*, 15, 1, (2000), p.10; J.S. Coleman, ‘The Design of Organisations and the Right to Act’, *Sociological Forum*, 8, 4, (1993) p.538; E.L. Glaeser, *et al.*, ‘An Economic Approach to Social Capital’, *The Economic Journal*, 112, 483, (2002), pp.437-458; N. Lin, *Social capital: a theory of social structure and action* (Cambridge, 2002), pp.24-5; F. Herreros, *The Problem of Forming Social Capital: Why Trust?* (New York, 2004), pp.108-109.

³⁷⁶ A. Portes, ‘Social Capital: Its Origins and Applications in Modern Sociology’, *Annual Review of Sociology*, 24, 1, (1998), p.18; Putnam, *Bowling Alone*, pp.31-180, 367-401; R.D. Putnam, with R. Leonardi and R.Y. Nanetti, *Making Democracy Work: civic traditions in modern Italy* (Princeton, N.J., 1993), chapter 6.

³⁷⁷ Putnam, *Bowling Alone*, pp.49-64, 116-134; Putnam *et al.*, *Making Democracy Work*, pp.139-41, 144-5; E. Felice, ‘The Determinants of Italy’s Regional imbalances over the long run: exploring the contributions of human and social capital’, Oxford Economic and Social History Working Papers, No.88, (March, 2011), pp.28-29.

depends on the way it is structured, which can vary over time.³⁷⁸ At the beginning of the twentieth century British friendly societies were numerically stronger than ever. However as the opening quotes illustrate, it would be inappropriate to assume that participation had the same social meaning. It is notable that those historians who have explored the concept of social capital have generally been sceptical and this chapter echoes these concerns.³⁷⁹ This chapter also calls into question David Green's claim, related in many ways to the work of Putnam, that friendly societies greatly enhanced the vibrancy of Victorian 'civil society'. Many of Green's claims rest on the assumption that friendly societies were 'participatory democracy' in which members actively engaged in the running of the lodge. This chapter undermines this argument through the use of quantitative material, rather than anecdotal references.³⁸⁰

Section 1: The changing social and cultural character of the Oddfellows in England

As discussed in chapter 2, the local branch was the organising unit of the affiliated friendly societies. Each branch was a self-governing entity appointing its own officials, recruiting members, collecting contributions and administering benefits.³⁸¹ In the Oddfellows the lodge room was a social space; meetings were never dedicated entirely by business and there was regularly room for sociable interaction.³⁸² The act of closing the meeting with a drink was termed 'proceeding to harmony'.³⁸³ Such activities helped build strong social bonds between members. In their study of lodges in Preston and Lancaster, D'Cruze and Turnbull argue that participation also gave members access to a diverse range of contacts, or 'bridging' social capital.³⁸⁴

³⁷⁸ E. Ostrom, 'Overview: What is Social Capital', in V. Bartkus (ed.), *Social capital: reaching out, reaching in* (Cheltenham, 2009), pp.27-31; T.K. Ahn and E. Ostrom, 'Social capital and collective action', in D. Castiglione, J. van Derth and G. Wolleb (eds.), *The Handbook of Social Capital* (Oxford, 2008), pp.84-87; T.K. Ahn and E. Ostrom, 'The meaning of social capital and its link to collective action', in *Handbook of social capital: the troika*, pp.30-31.

³⁷⁹ Gorsky, 'Mutual Aid', pp.316-322; Fisk, *Mutual Self-help*, pp.155-159, 321-22; see also J. Kaufman, 'Three Views of Associationalism in 19th century America: An Empirical Examination', *American Journal of Sociology*, 104, 5, (1999), pp.1296-1345.

³⁸⁰ D. Green, *Reinventing Civil Society: Rediscovery of Welfare Without Politics* (London, 1993), pp.29-32, 304.

³⁸¹ Fisk, *Mutual Self-help*, p.139.

³⁸² E. Lord, 'The Friendly Society Movement and the Respectability of the Rural Working Class', *Rural History*, 8, 2, (1997), p.167.

³⁸³ Ismay 'Trust Among Strangers', p.93.

³⁸⁴ D' Cruze and Turnbull, 'Fellowship and family' pp.46-7.

a) Lodge size

Achieving the optimal lodge size meant balancing two forces. Friendly societies were insurers and needed a large enough pool of members to spread risks. On the other hand lodges needed to be small enough for members to build up meaningful social ties. To function effectively members had to be willing to give up their free time. Engineering this sense of obligation was easier in a small group. Lord Beveridge succinctly summarised the problem as ‘combining the responsibility and personal contact of small units with the strength and capacity to weather storms that depends on size’.³⁸⁵

Lodge size is a good proxy for the social intimacy of the members. In the words of Audrey Fisk:

Once the society or branch became too large to be accommodated for meetings in rooms available, too widely dispersed through population mobility, or became regarded primarily as the provider of financial security, the ‘glue’ of mutual trust would tend to dissipate and become a characteristic of an inner group that continued to meet regularly.³⁸⁶

This diagnosis accords with Robin Dunbar’s theory that there is a cognitive limit to the number of people with whom one can maintain stable social relationships. What has become known as ‘Dunbar’s number’ has been proposed to lie somewhere 100 and 150.³⁸⁷ This provides a good benchmark for thinking about the effect of lodge size. It is likely that as lodges grew bigger than 150 there was a weakening of the social bonds between members.

The lodges of the Oddfellows grew in size over the nineteenth century.³⁸⁸ Annual membership figures are available in the annual reports from 1845-1904. After 1904 it was necessary to use the directories of the order. There was a clear increase in the size of the average lodge size between 1845 and 1929 (see **figure 4.1**), from 66 to nearly 200; a 203% increase. Much of the evidence presented in the first section of

³⁸⁵ W.H. Beveridge, *Voluntary Action: A report on methods of social advance* (London, 1948), p.36.

³⁸⁶ Fisk, *Mutual Self-help*, p.155.

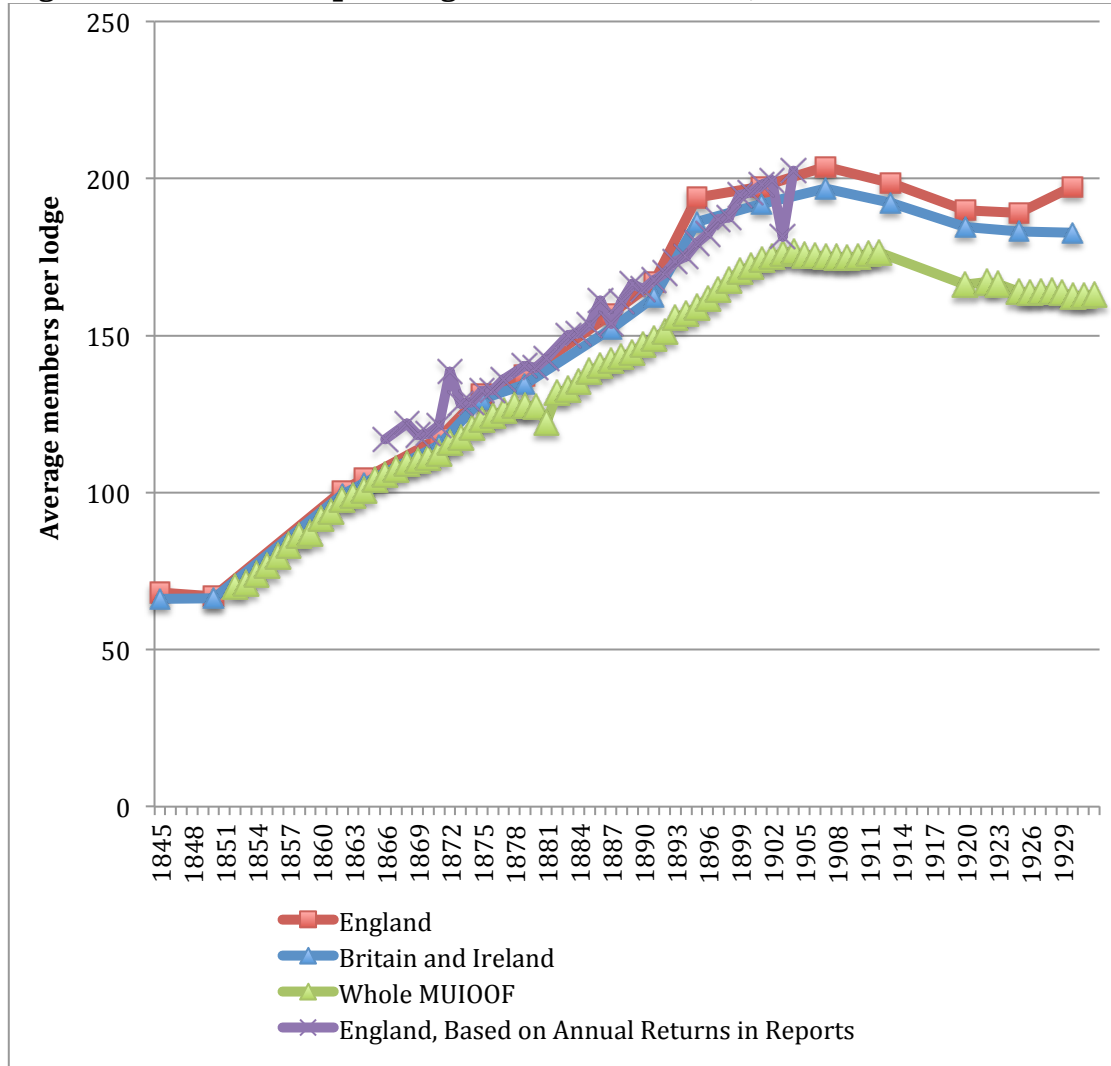
³⁸⁷ R. Dunbar, ‘Neocortex size as a constraint on group size in primates’, *Journal of Human Evolution*, 22, 6, (1992), pp.469-493.

³⁸⁸ Gosden, *The Friendly Societies*, p.35.

this chapter applies to England. Therefore I have removed the figures for Scotland, Ireland, Wales and foreign lodges to ensure that the trend was not a consequence of developments in other regions. The increase in the size of lodges becomes more pronounced when these regions are excluded. It is also clear that the most significant changes occurred between 1845 and 1900. After that period the average size of lodges actually levelled out, suggesting that the National Health Insurance scheme had a minimal impact. Gosden has argued this was because smaller lodges were financially vulnerable and tended to collapse, leading to a long-term consolidation around larger lodges.³⁸⁹

³⁸⁹ *Ibid.*, p.5.

Figure 4.1: Members per lodge in the Oddfellows, Britain 1845-1929.

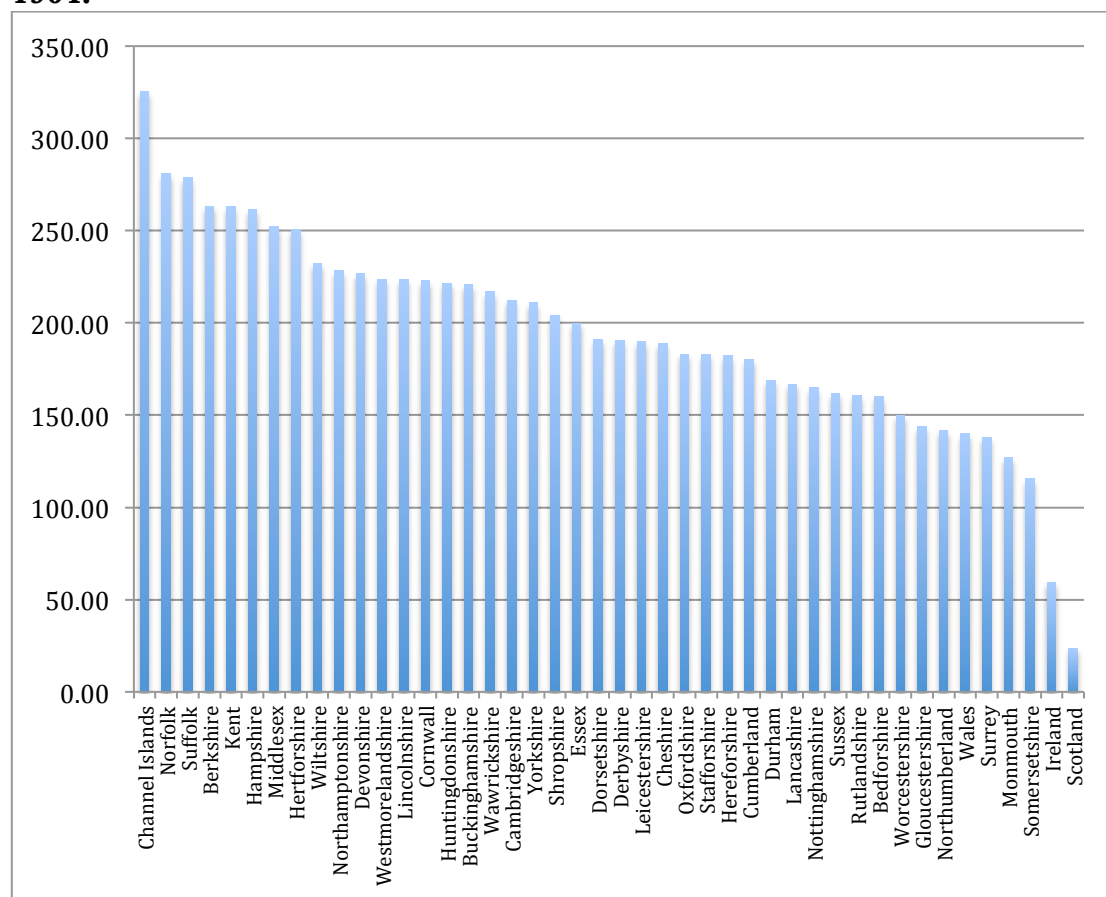


Sources: Data for 'England' and 'Britain and Ireland' in *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1845* (Manchester, 1845), p.339; Same title for latter years: 1850, pp.172-9; 1862, p.244; 1864, p.237; 1870, p.278; 1875, p.309; 1879, p.335; 1887, p.336; 1891, p.381; 1895, p.385; 1896, p.310; 1901, p.426; 1907, p.443; 1913, p.409; 1919, p.379; 1924, p.379; 1929, p.378 (all OOA). Data for 'Whole MUOOF' and 'England', based on annual returns from lodges reported in quarterly reports in *MUQR*, 1866-1904, (all OOA).

Average lodge size varied by region. In 1904 rural counties had larger lodges than more urbanised counties (see **figure 4.2**). Contrary to the notion that urban areas were more anonymous, urban lodges were generally smaller and probably more sociable. Moreover the *increase* in average lodge size was more pronounced in rural counties. The counties of Devonshire, Dorsetshire, Hampshire and Oxfordshire experienced a percentage increase of 70.45%, 80.86%, 94.07% and 125% respectively between 1866 and 1885. The national average was just 28% (see **Table 4.15** at the end of this chapter for a full county-by-county breakdown). Following

Gosden's reasoning, this suggests that small lodges were particularly vulnerable in rural regions leading to a greater degree of conglomeration.

Figure 4.2: Members per lodge at county level in the Oddfellows, Britain 1904.



Source: see source note figure 4.1.

b) Frequency of meeting

To build up trust and social cohesion within the lodge it was important that the members had semi-frequent contact. Lodge nights always opened with 'business', but they were clearly social occasions on which ale was drunk, songs were sung, and ceremonies undertaken.³⁹⁰ How frequently did lodges meet? If lodges were meeting less frequently then, *ceteris paribus*, it is reasonable to assume that members were becoming more isolated from one another.

³⁹⁰ Cordery, *British Friendly Societies*, pp.33-5

The directories of the Oddfellows were produced regularly and listed the location of every branch as well as how frequently it met. The Oddfellows were a huge organisation with 3380 lodges in 1907, making it unfeasible to collect data on every lodge over the entire period. Instead I collected a 10% random sample of English lodges from the directories for 1845, 1866, 1887, 1907 and 1929. These years were selected because they were at similar intervals and because the entries were more complete than in some of the other directories.³⁹¹ Selecting the directories for 1907 and 1929 also gives a snapshot of the Oddfellows immediately before the NHI Act and after the scheme had been in operation for a number of years. The sampling method involved generating random lodge numbers, assigned by the Oddfellows at the time, and locating lodges in the directory. **Table 4.1** gives the number of lodges in each wave and **figure 4.3** shows the geographical distribution of the branches in the sample.

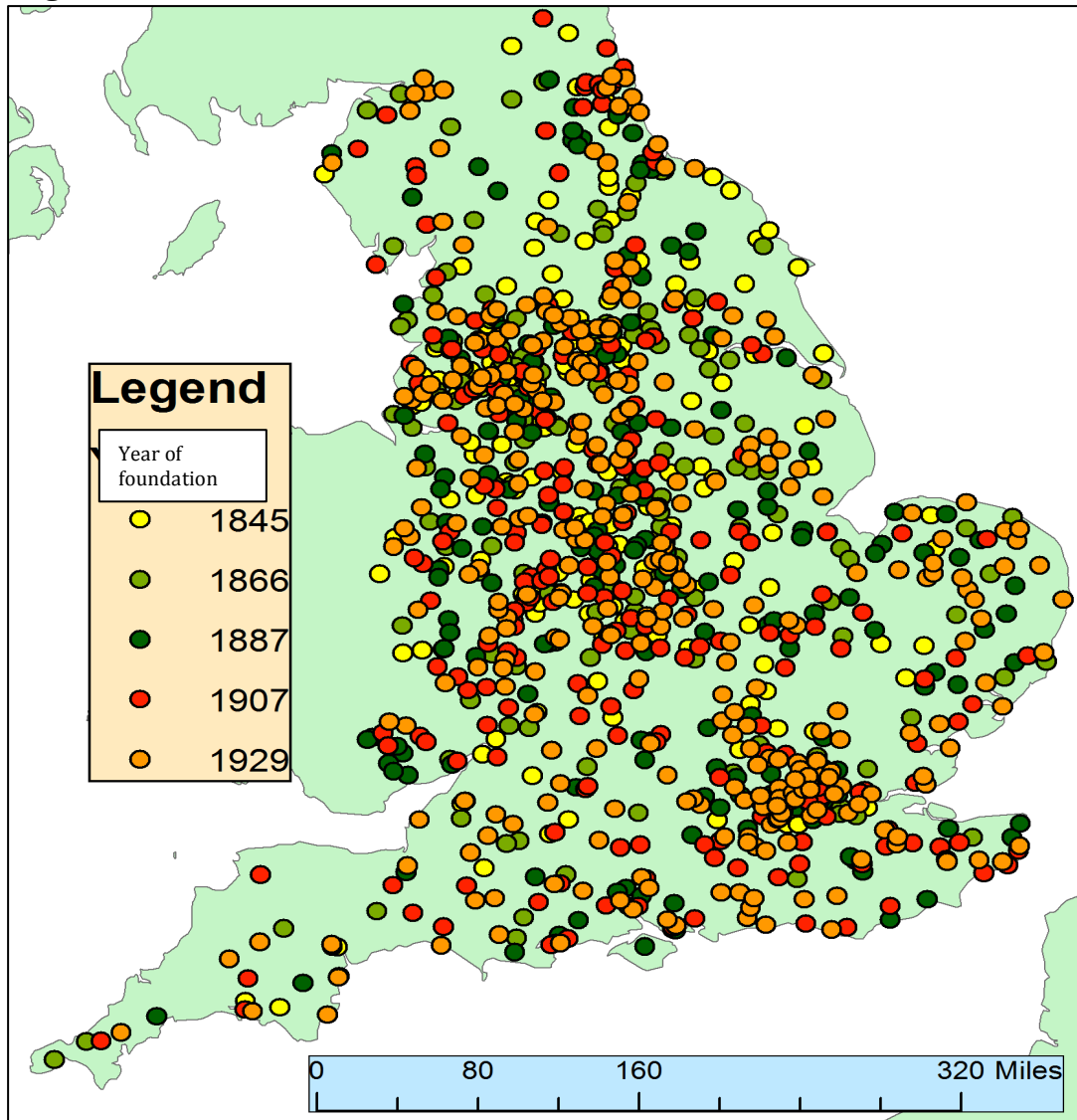
Table 4.1: Number of lodges of the Oddfellows and number in sample, England 1845-1929.

| Year | Total lodges in the order | 10% sample (rounded up) |
|-------------|----------------------------------|--------------------------------|
| 1845 | 3326 | 333 |
| 1866 | 3059 | 306 |
| 1887 | 3139 | 314 |
| 1907 | 3380 | 338 |
| 1929 | 3596 | 360 |

Source: A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1845 (Manchester, 1845); same title for other years, 1866, 1887, 1907, 1929 (all OOA).

³⁹¹ These directories were at intervals of 21 years (1845-1866), 21 years (1866-1887), 20 years (1887-1907), and 23 years (1907-1929).

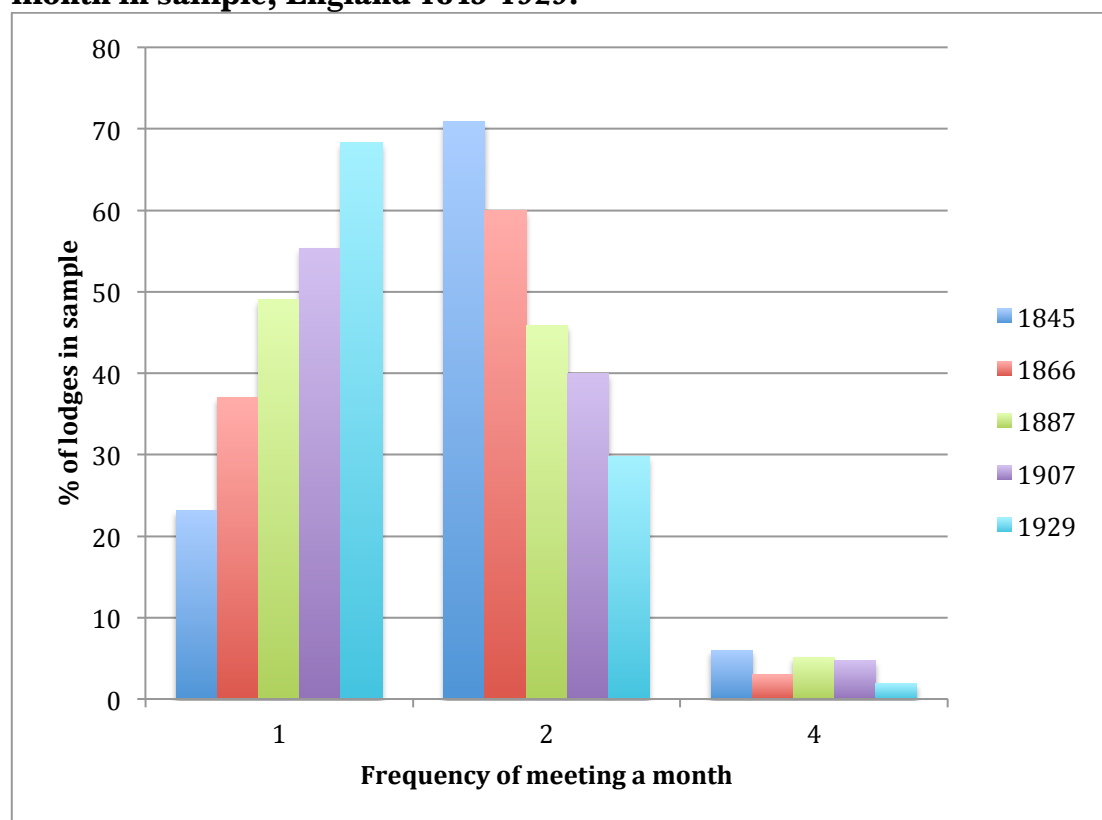
Figure 4.3: Geographical distribution of Oddfellows lodges in sample, England 1845-1929.



Source: see source note table 4.1.

Figure 4.4 shows the percentage of lodges meeting at each frequency in each year. The results are unambiguous; the lodges of the Oddfellows were meeting with decreasing frequency between 1845 and 1929. The proportion of lodges meeting once a month increased steadily over the period, whilst the proportion meeting every other week fell. Only a minority of lodges met every week, even in 1845 when many of the lodges in the sample were small and young.

Figure 4.4: Percentage of Oddfellows lodges meeting 1x, 2x and 4x a month in sample, England 1845-1929.



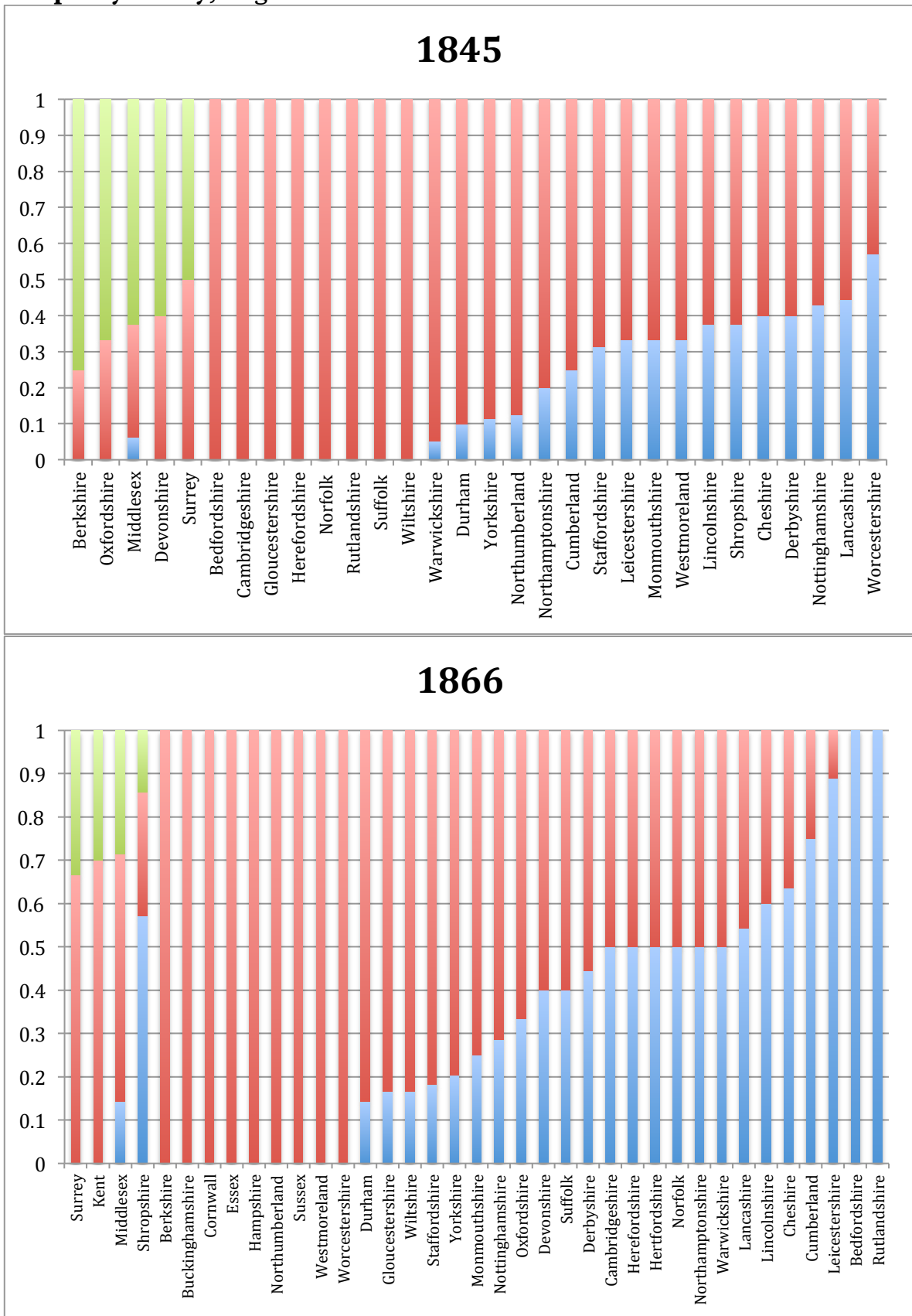
Source: see source note table 4.1. Note: n = 1,651.

Moving to the county level, there was a decline in the frequency of meeting in all counties. In **figures 4.5** counties are arranged largest to smallest by the proportion of lodges meeting four times a month, twice a month and once a month. The area in blue represents the number of lodges meeting just once a month, and it dramatically increases over the five graphs. As is the case with lodge size, the most significant changes seemed to have taken place between 1845 and 1907. In all the waves lodges in the southeast were generally the most likely to be meeting regularly. London lodges were particularly likely to meet twice and four times a month. Gosden has suggested that it was only in rural areas that lodges retained an emphasis on conviviality and sociability.³⁹² These data suggests that this interpretation is wrong. Only in London did lodges consistently meet every week up until 1930. The heartland of Oddfellowship was the Northwest and Yorkshire.³⁹³ In these regions a large proportion of lodges were meeting just once a month as far back as 1845 (see **figure 4.6** and **4.7**).

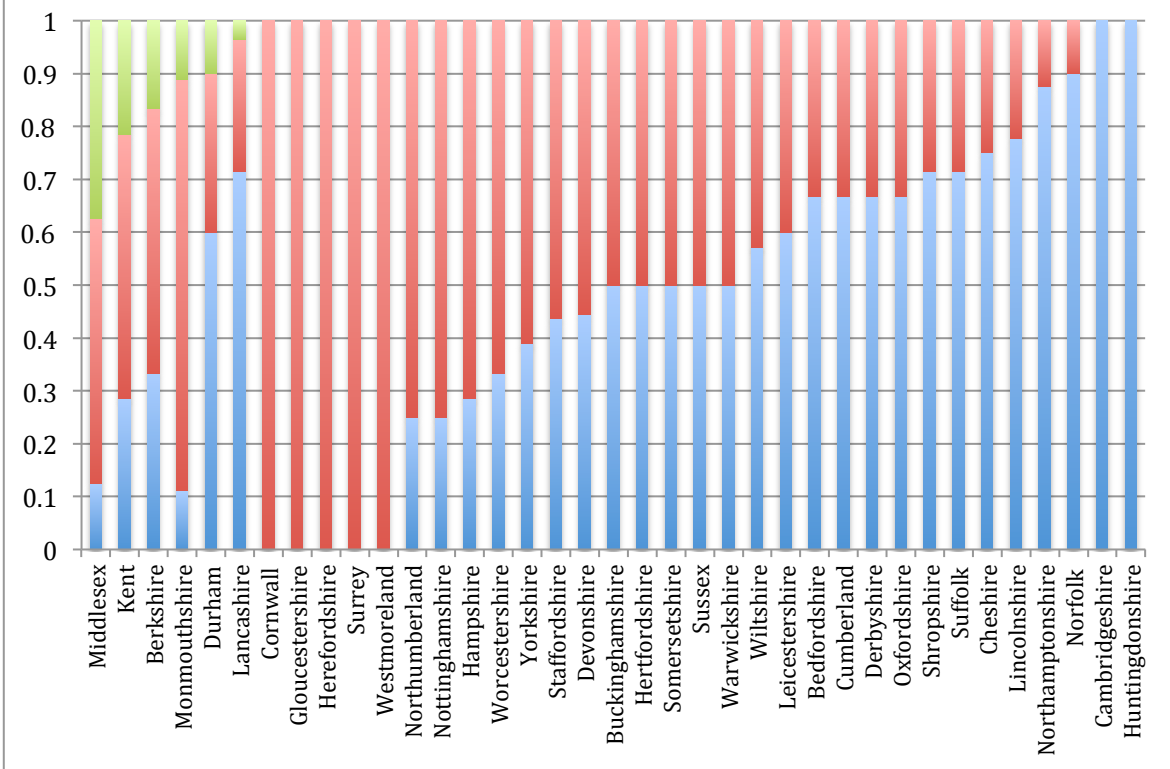
³⁹² Gosden, *The Friendly Societies*, p.218.

³⁹³ *Ibid.*, pp.32, 34.

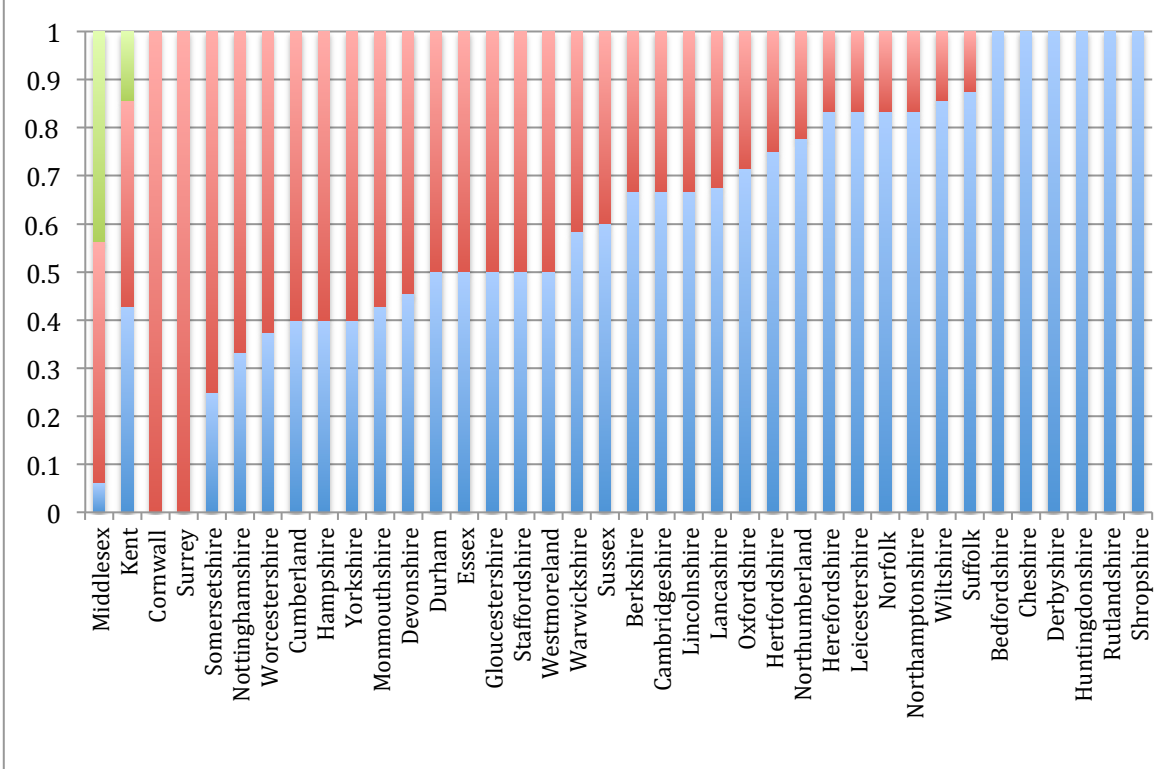
Figure 4.5: Proportion of lodges meeting 1x, 2x and 4x a month in sample by county, England 1845-1929.

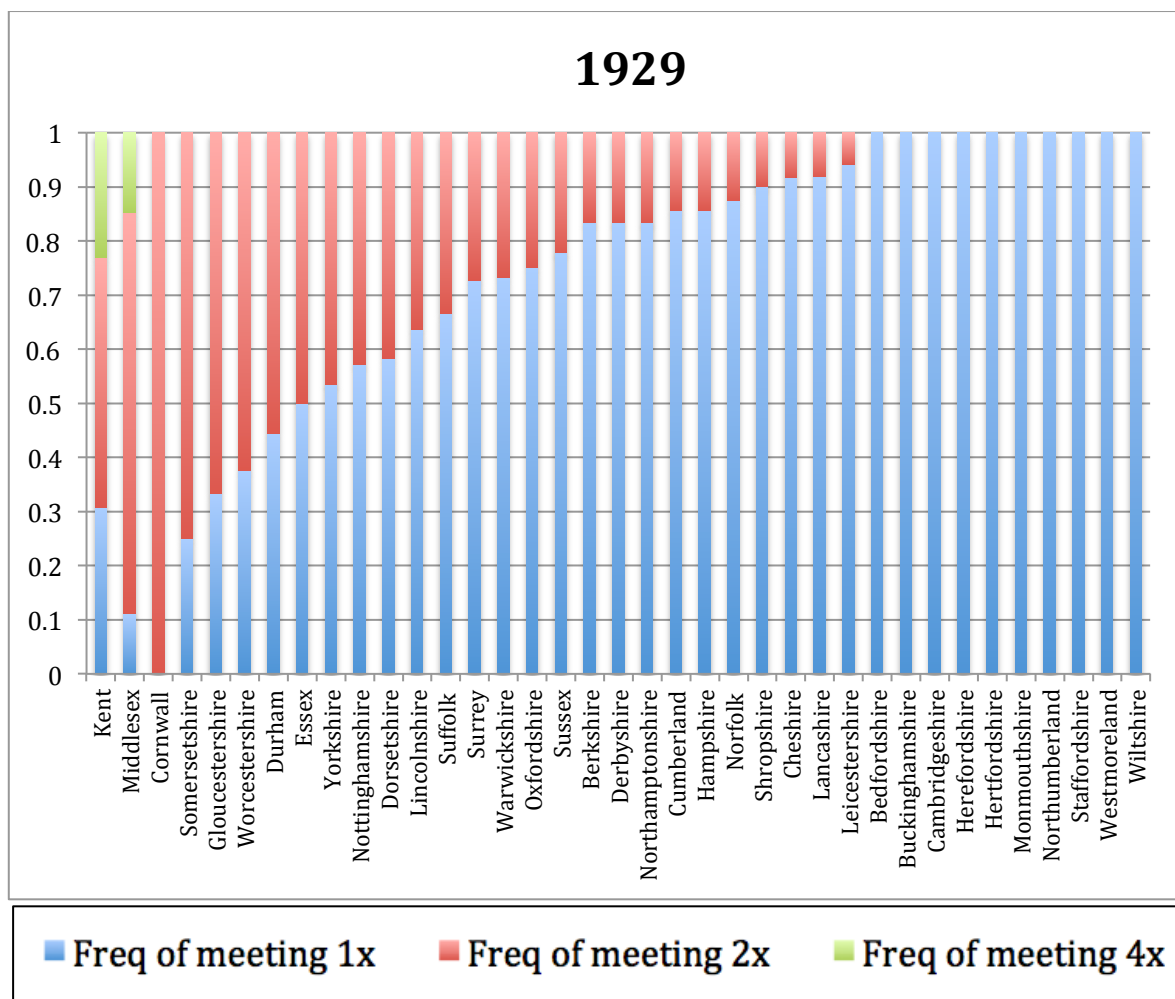


1887



1907





Source: see source note table 4.1.

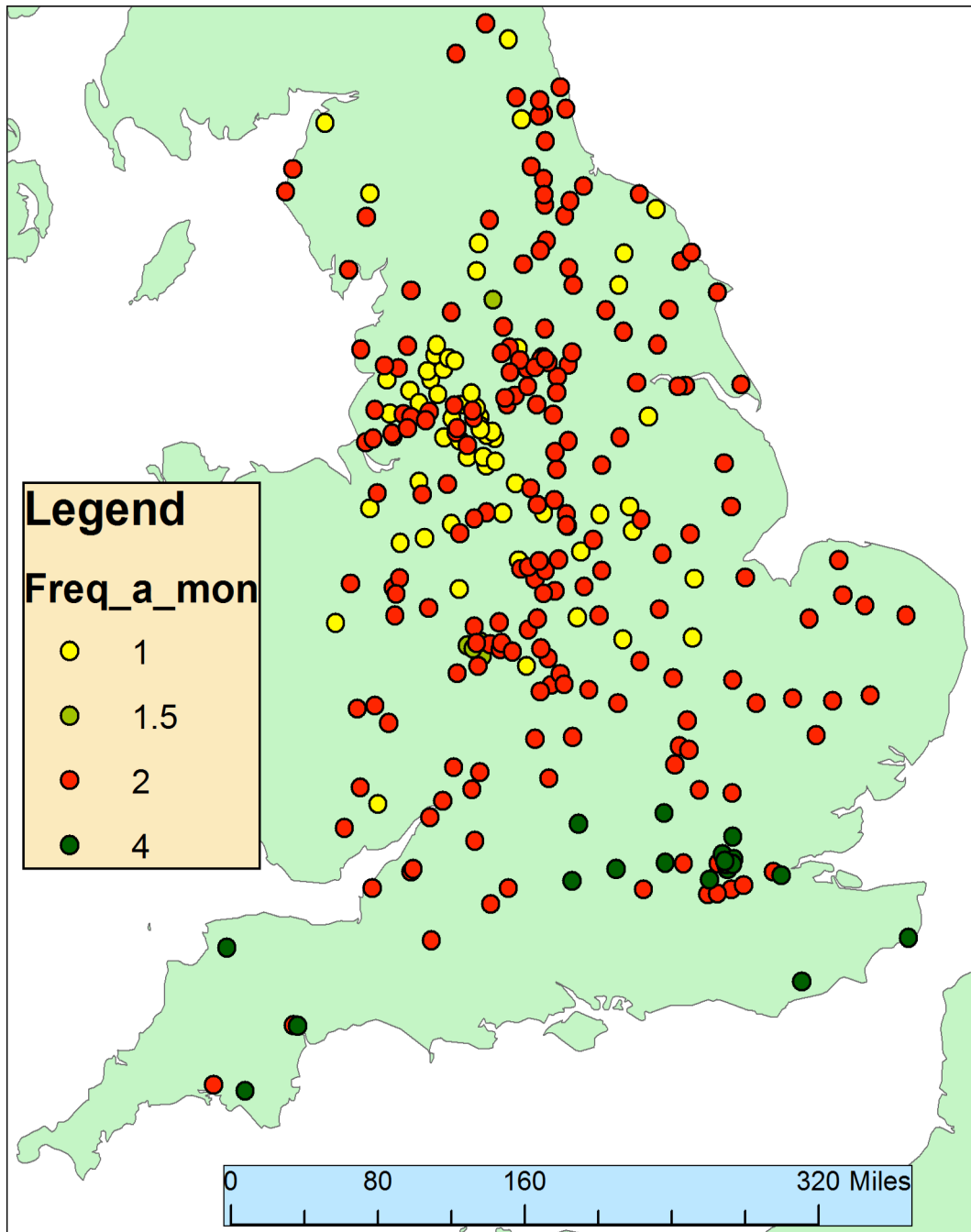
c) Meeting place

It was common for early friendly societies to meet in alehouses. Indeed many societies were founded by innkeepers and publicans.³⁹⁴ Over the nineteenth century societies were under pressure to move their meetings to more ‘respectable’ spaces and to curtail the consumption of alcohol. Reformers saw public libraries, schoolrooms and religious spaces as more appropriate. The change was, in part, forced on the societies. Outsiders attacked the practice of meeting in pubs, claiming that it encouraged drinking and wasted lodge funds.³⁹⁵ Between 1828 and 1870 the Registrar of friendly societies, Tidd Pratt, consistently complained that lodges were meeting in alehouses and he did everything in his power to try to halt the practice, for example altering the rules of registered societies to remove ‘unnecessary expenditure’

³⁹⁴ Neave, *Mutual Aid*, p.53.

³⁹⁵ Cordery, *British Friendly Societies*, p.25.

Map 4.6: Map showing frequency with which lodges in sample met, 1845.

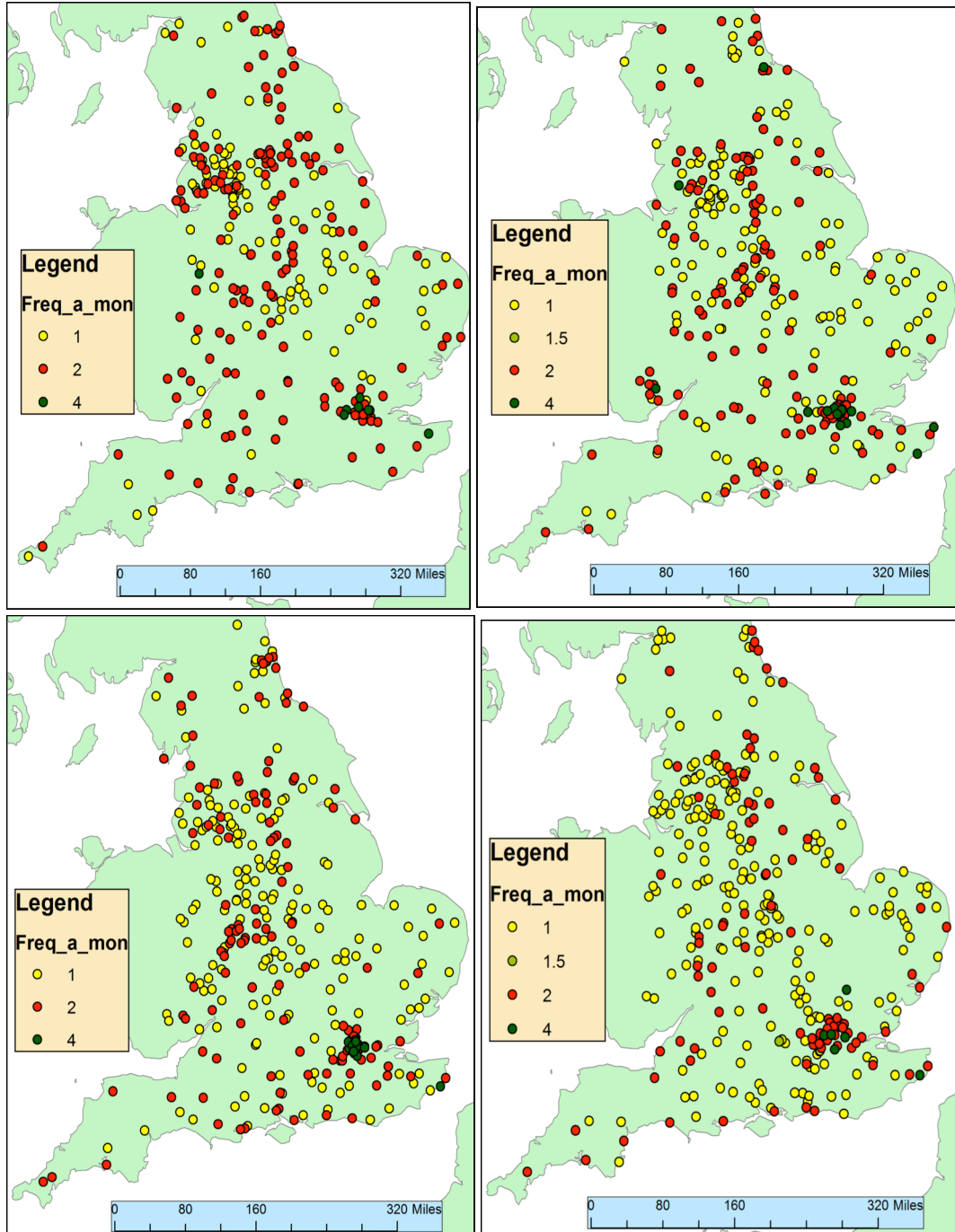


Source: see source note table 4.1. Note: 'Freq_a_mon' in legend is 'Frequency of meeting a month'.

such as drink and regalia.³⁹⁶ This 'assault on sociability', as Cordery put it, was also engineered from within the movement. Temperance friendly societies, like the Ancient Order of Rechabites, spearheaded the critique of traditional friendly society

³⁹⁶ Gosden, *Self-help*, p.14.

Figures 4.7: Maps showing frequency with which lodges in sample met, 1866, 1887, 1927, 1907 (from top left clockwise).



Source: see source note table 4.1. Note: 'Freq_a_mon' in legend is 'Frequency of meeting a month'.

conviviality.³⁹⁷ In the Oddfellows high-ranking officials pressed for financial reform and the power to monitor lodge expenditure more closely so that by the 1870s rules had emerged that prohibited the use of lodge funds for beer and annual feasts.³⁹⁸ It is plausible that this damaged attendance. It seems that some members thought as

³⁹⁷ Cordery, *British Friendly Societies*, p.8.

³⁹⁸ Gosden, *The Friendly Societies*, pp.123-4; D' Cruze and Turnbull, 'Fellowship and Family', p.39.

much. In 1871 E.L Stanley, a local secretary of the Manchester district of the Oddfellows met with a group of members and tried to convince them that ‘to form a club for the purpose of meeting convivially to drink beer was not one of the purposes mentioned in the Act [of 1870]’. Stanley was rebuffed and he noted that ‘there was a strong feeling that... if beer was not provided few members would attend the meetings’.³⁹⁹ In the 1870s there were regular debates about the wisdom of building lodge halls to escape from the alehouse. One of the most sustained complaints was that moving from pubs would erode the spirit of fraternalism.⁴⁰⁰

A number of historians have commented on the tendency of friendly societies to meet in pubs but there are no studies that gauge how extensive the practice was. The directories of the Oddfellows also recorded the official meeting place of each lodge. Starting with a random sample of 1000 lodges in 1879, and tracing these same lodges through to 1907, it is clear that there was a spatial shift in the location of meetings. There was a substantial decline in the proportion of lodges meeting in pubs, from 79% to 51%, and an increase in meeting in halls, schools and religious spaces (see **table 4.3**).

It would be too simplistic to see this as evidence of a simple decline in sociability. The most important shift was from meeting in pubs to hotels. **Table 4.2** records the ten most common transitions between 1879 and 1907. Of the 334 lodges that changed meeting place the majority, 41.9%, moved from a pub to a hotel. Relocations from pubs to schoolrooms and halls were some distance behind, with an 8.0% and 7.4% share of movements. Relocating to a hotel could have been a tactical ploy – it was more respectable than an alehouse, and could probably also accommodate more members, but alcohol was probably available. It is also worth noting that the pubs and alehouses still dominated, with 51.7% of lodges meeting in one in 1907. This suggests that Tidd Pratt’s efforts to banish the consumption of alcohol were not as successful as Cordery has suggested.⁴⁰¹ The main strategy was to alter the rules of societies to remove ‘unnecessary expenditure’ such as alcohol, or

³⁹⁹ Gosden, *The Friendly Societies*, p.214.

⁴⁰⁰ Cordery, *British Friendly Societies*, pp.117-8.

⁴⁰¹ *Ibid.*, pp.88-91, 106-124.

refuse to register the society.⁴⁰² It is likely that societies responded by adapting their rules, moving to a hotel and/or simply meeting for a drink after official business was conducted.

Another noticeable change over the period was an increase in meeting in halls. Of the 236 lodges that moved from meeting in a pub to another location 10% moved into an Oddfellows Hall and 3.39% to a more general category of ‘Friendly society hall’. These spaces were probably less boisterous than the alehouse, but there was a countervailing effect. It is plausible that meeting in purpose built halls engendered a greater sense of cohesiveness and pride; amplifying the sense of belonging to a group separate from ‘outsiders’. In this sense the move into hall did not signify an erosion of sociability. Rather it would be more accurate to say that spatial dynamics of sociability mutated over the period, adapting around the cultural demands of ‘respectability’.⁴⁰³

Table 4.2: Ten most common relocations of meeting place between 1879 and 1907, England.

| Meeting place in 1879 | Meeting place in 1907 | Number of lodges | % of the 334 lodges moving meeting place |
|-----------------------|--------------------------------|------------------|--|
| Pub | Hotel | 140 | 41.91 |
| Pub | School | 30 | 8.98 |
| Pub | Oddfellows Hall | 25 | 7.49 |
| Hotel | Pub | 14 | 4.19 |
| Oddfellows Hall | Pub | 11 | 3.29 |
| Pub | Friendly Society Hall/Building | 8 | 2.4 |
| Oddfellows Hall | Hotel | 6 | 1.8 |
| Pub | Religious Space | 6 | 1.8 |
| Hotel | Oddfellows Hall | 6 | 1.8 |

Source: *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1879* (Manchester, 1879); *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1907* (Manchester, 1907) (OOA).

⁴⁰² Gosden, *Self-help*, p.14.

⁴⁰³ Analogous to the strategy described in P. Bailey “‘Will the real Bill Banks please stand up?’; Towards a role analysis of mid-Victorian Working Class respectability’, *Journal of Social History*, 12, 3, (1979), pp.336-353.

Table 4.3: Meeting place of lodges of the Oddfellows in England in 1879 and 1907.

| <i>Meeting Place</i> | <i>Frequency in 1879</i> | <i>Frequency in 1907</i> | <i>% in 1879</i> | <i>% in 1907</i> | <i>Change</i> |
|----------------------------------|--------------------------|--------------------------|------------------|------------------|---------------|
| Athenaeum | 1 | 1 | 0.1 | 0.13 | 0 |
| Chamber of Commerce | 1 | 7 | 0.1 | 0.88 | 0.78 |
| Church rooms | 2 | 0 | 0.2 | 0.00 | 0 |
| Coffee Shop | 1 | 5 | 0.1 | 0.63 | 0.53 |
| Cooperative Hall | 2 | 5 | 0.2 | 0.63 | 0.43 |
| Corn Exchange | 1 | 1 | 0.1 | 0.13 | 0 |
| Free Templars Hall | 1 | 0 | 0.1 | 0.00 | 0 |
| Friendly Society Hall/Building | 2 | 10 | 0.2 | 1.25 | 1.05 |
| Hotel | 72 | 168 | 7.2 | 21.05 | 13.85 |
| Library Hall | 2 | 1 | 0.2 | 0.13 | 0 |
| Masonic Hall | 1 | 5 | 0.1 | 0.63 | 0.53 |
| Mechanics Hall/Institute | 3 | 3 | 0.3 | 0.38 | 0 |
| Miners Hall | 1 | 1 | 0.1 | 0.13 | 0 |
| Oddfellows Hall | 60 | 69 | 6 | 8.65 | 2.65 |
| Post Office | 2 | 0 | 0.2 | 0.00 | 0 |
| Private Club | 1 | 3 | 0.1 | 0.38 | 0 |
| Private Room | 7 | 6 | 0.7 | 0.75 | 0 |
| Pub | 791 | 413 | 79.1 | 51.75 | -27.35 |
| Public/Lecture Hall | 8 | 24 | 0.8 | 3.01 | 2.21 |
| Public Space | 1 | 0 | 0.1 | 0.00 | 0 |
| Reading Rooms | 4 | 5 | 0.4 | 0.63 | 0 |
| Religious space | 3 | 12 | 0.3 | 1.50 | 1.20 |
| School | 22 | 42 | 2.2 | 5.26 | 3.06 |
| Temperance Hall | 3 | 3 | 0.3 | 0.38 | 0 |
| Templars Hall | 2 | 0 | 0.2 | 0.00 | 0 |
| Temple Bar | 1 | 1 | 0.1 | 0.13 | 0 |
| Town Hall | 3 | 7 | 0.3 | 0.88 | 0.58 |
| Volunteer Drill Hall | 1 | 0 | 0.1 | 0.00 | 0 |
| Working Men's Club | 1 | 4 | 0.1 | 0.50 | 0 |
| Restaurant | 0 | 1 | 0 | 0.13 | 0 |
| Royal Exchange | 0 | 1 | 0 | 0.13 | 0 |
| Total number of lodges in sample | 1000 | 798 | | | |

Source: See source note table 4.2.

d) Lodge attendance

Over the nineteenth century the lodges of the Oddfellows grew in size and met less frequently, suggesting that the social ties between members were weakening. However it is possible that an increasing proportion of members were attending meetings. Measuring attendance is empirically challenging because it requires lodge-level source material. The archives of the Oddfellows contain the minute books of a number of branches covering the period 1839-1945.⁴⁰⁴ Different lodges adopted different styles of minuting and only a minority recorded information on turnout.⁴⁰⁵ This information took two forms; taking a roll call of members present and enumerating votes cast in elections. Roll calls are reasonably simple to interpret. The entry in the minute book usually specified whether the list was of officers or members present. In some instances the entry stated ‘officers present, plus X members’. If it was in anyway unclear who was included in the roll call the observation was dropped. Voter turnout is more difficult to interpret. Lodges elected members to official positions within the lodge and at the district level. Sometimes minute books listed the name of each candidate standing and the number of votes received. Other entries only gave the names of those elected and omitted the number of votes cast.⁴⁰⁶ Again, any ambiguous or incomplete entry was excluded. The total number of votes cast gives an indication of attendance. This procedure assumes that there were no abstentions. This is obviously unrealistic, but given that I am using these data to gauge participation levels, an abstention can be taken as evidence of disengagement. Using this source material we can also calculate the percentage of members standing for official positions – another proxy for engagement in lodge governance.

⁴⁰⁴ Available through the OOA.

⁴⁰⁵ Source name followed by item names in the online archives in brackets: ‘Minute Books of the Wansford in England lodge, Wansford, 1894-1917’ (‘Minute Book – Nene and Welland – 1894-1917’, parts 1-3); ‘Minute Books of the Loyal Rising Star lodge, Beverley, 1886-1921’ (‘Minute Book – Beverley – 1886-1903’ parts 1-5, and ‘Minute Book – Beverley – 1903-1921’ parts 1-6); ‘Minute Books of the Bodlondel lodge, Conway, 1914-1938’ (‘Minute Book – Chester – 1914-1938’ parts 1-3 (note the archive index incorrectly locates this lodge in Chester, but the cover page clearly indicates this was the minute book for the Bodlondel lodge in Conway, Caernarvonshire)); ‘Minute Books of the Rising Sun lodge, Eastwood, 1893-1915’ (‘Minute Book – Eastwood – 1893-1907’ and ‘Minute Book – Eastwood – 1907-1915’); ‘Minute Books of the Mundy lodge, Mackworth, 1886-1920’ (‘Minute Book – Derby – 1886-1909’, parts 1-2 and ‘Minute Book – Derby – 1911-1920’ parts 1-2) all OOA.

⁴⁰⁶ For example, ‘Minute Books of the Loyal Rising Star lodge, Beverley, 3rd December 1893’ (OOA).

The second step in the methodology was to identify the size of the lodge using the directories of the order.⁴⁰⁷ Directories were missing for some years but using linear interpolation it was possible to estimate the size of the lodge in each year. **Table 4.4** contains information on the lodges included in the sample. The majority of observations relate to the Loyal Bodlondel lodge in Caernarvonshire. This lodge took a regular roll call of members present on lodge nights. Reflecting the importance of the Bodlondel lodge, 85.1% of the observations in the whole sample relate to a roll call and 14.9% are based on elections. All of the observations for the Loyal Mundy Lodge were for ‘officers present’. The minute books of the Eastwood, Beverley and Wansford lodges regularly tabulated votes cast in elections to district positions, but a small number of entries referred to the selection of lodge officials. **Table 4.5** shows the frequency of these different measures.

Table 4.4: Details of Oddfellows lodges used in a sample of minute books to quantify attendance levels, England.

| | Lodge name | | | | |
|---------------------------------------|---------------------|---------------------|-------------------------|----------------------|-----------------------|
| | Wansford in England | Rising Star | Bodlondel | Rising Sun | Mundy |
| Location | Wansford, N'hampton | Beverley, Yorkshire | Conway, Caernarvonshire | Eastwood, Nott'shire | Mackworth, Derbyshire |
| Founded | 1844 | 1832 | 1841 | 1829 | 1832 |
| Dates for which turnout data included | 1894-1916 | 1887-1914 | 1914-1934 | 1898-1917 | 1896-1897 |
| Number of observations on turnout | 13 | 14 | 232 | 15 | 8 |
| % of sample | 4.6 | 5.0 | 82.3 | 5.3 | 2.8 |
| Members at start of period | 415 | 89 | 683 | 233 | 369 |
| Members at end of period | 662 | 181 | 1114 | 236 | 425 |
| Average annual growth rate | 2.20 | 5.17 | 3.94 | 1.29 | 0.69 |

Source: see footnotes 405 and 407, pages 198-9.

⁴⁰⁷ Available editions of *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity*, between 1841-1934, see footnote 39 page 8.

Table 4.5: Types of observation of lodge attendance in sample.

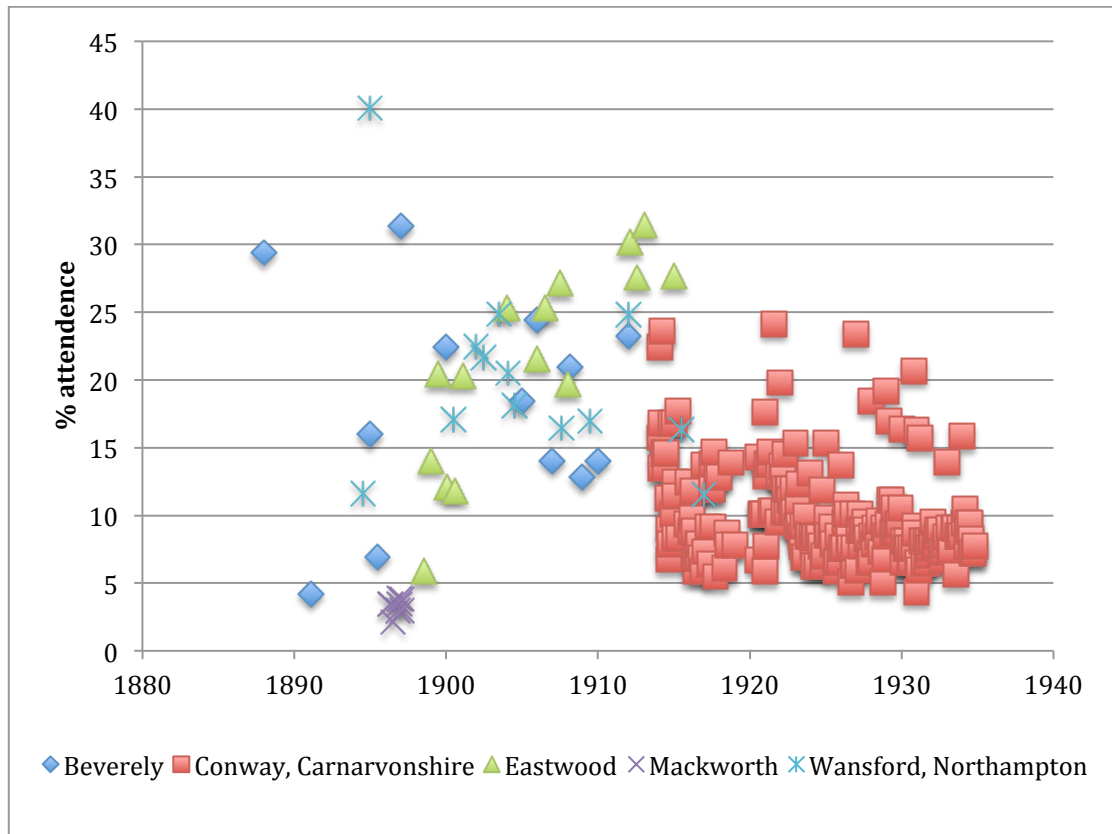
| Type of entry in minute book | Frequency | Per cent |
|-------------------------------------|-----------|----------|
| Vote – Annual delegates to district | 39 | 13.8 |
| Roll Call – Lodge night | 211 | 74.8 |
| Vote – Management committee | 1 | 0.4 |
| Roll Call – Officers present | 8 | 2.8 |
| Vote – Official Election | 3 | 1.1 |
| Roll Call – Summoned meeting | 20 | 7.1 |

Source: see footnotes 405 and 407, pages 198-9.

In this sample of lodges attendance was consistently poor. Unfortunately these data are too noisy to determine whether there is a clear trend over time (see **figure 4.8**). In 82.6% of cases the percentage of the members attending was 15% or lower (see **figure 4.9**). Elections were better attended than regular lodge nights but it was very rare for attendance to rise above 30%. This might have been because lodge officials chose well-attended nights to take a vote. On 11th June 1903 the Wansford in England lodge held an election to the district meeting precisely because there was a good turnout.⁴⁰⁸ In the case of the Loyal Bodlondel lodge in Conway the minute books specified if the lodge night was a ‘summoned meeting’ – meaning that in theory all members had to attend. On these nights attendance was higher, but was never greater than 1 in 4 members (see **figure 4.10**).

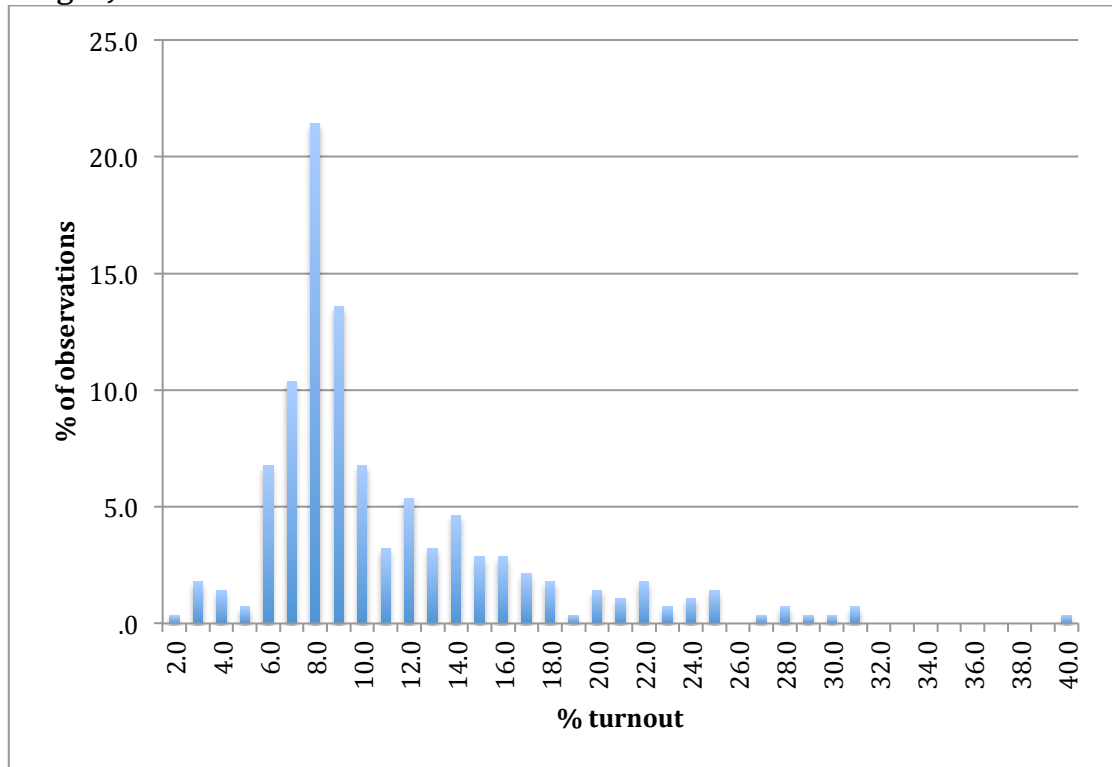
⁴⁰⁸ ‘Minute Books of the Wansford in England lodge, Wansford, 11th June 1903’ (OOA).

Figure 4.8: Attendance at lodge meetings in five Oddfellows lodges, 1887-1935.



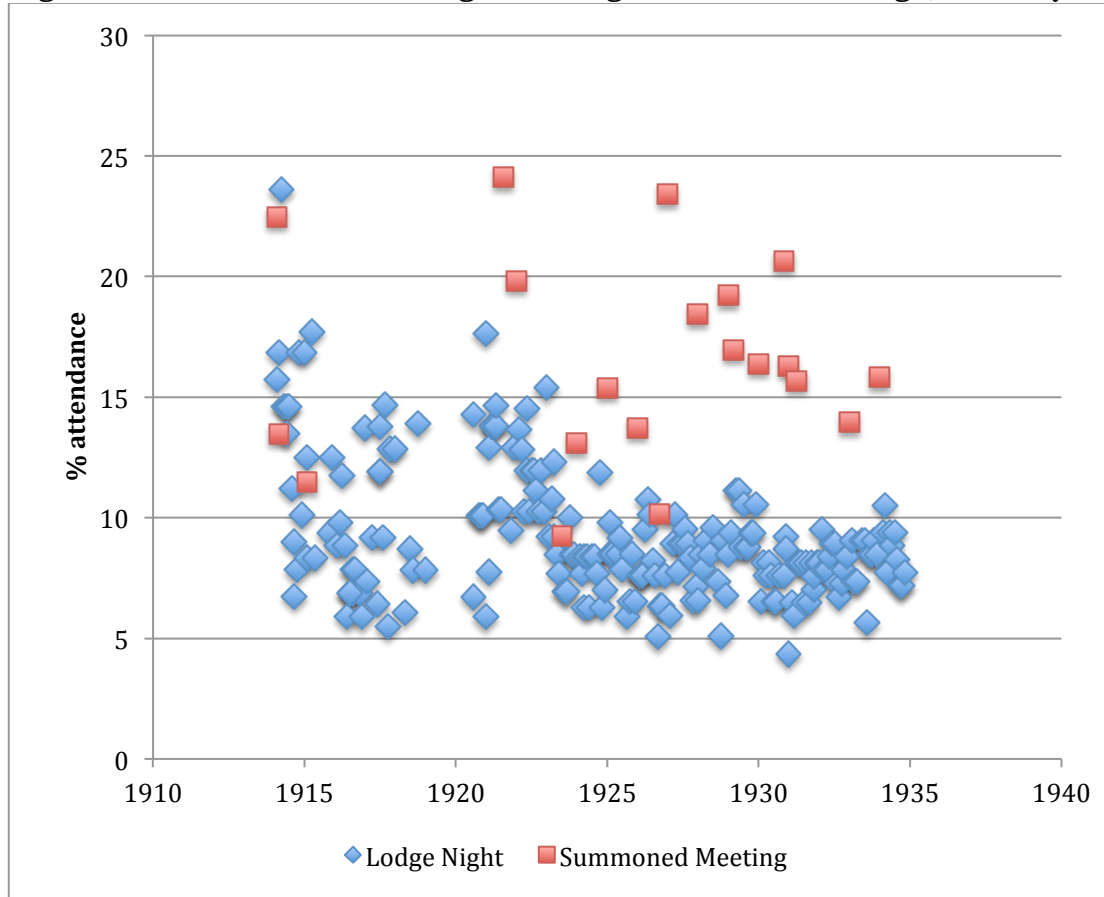
Source: see footnotes 405 and 407, pages 198-9.

Figure 4.9: Histogram of attendance at meetings in five Oddfellows lodges, 1887-1935.



Source: see footnotes 405 and 407, pages 198-9. Note: Percentage attendance rounded to closest integer.

Figure 4.10: Attendance at lodge meetings in Bodlondel lodge, Conway.



Source: see footnotes 405 and 407, pages 198-9.

There is evidence that lodges punished members and officers for non-attendance. Between 1839 and 1855 70% of fines of members of the Henry Jenkins Lodge in Scorton were for non-attendance.⁴⁰⁹ Even if the officers of the order took attendance seriously it seems that the majority of members did not. Wilkinson was fairly accurate to suggest that 90% of members failed to show except for summoned meetings.⁴¹⁰ If anything he was too optimistic. Attendance for summoned meetings wasn't substantially better than 10% and turn out for regular lodge nights was often far lower than 10%. By the turn of the twentieth century non-attendance was not a serious offence. The rules of the Loyal Walton lodge in Oxford from 1902 do not contain any provision for fining members for non-attendance at lodge nights. A member could be fined for missing a summoned meeting but only if they failed to

⁴⁰⁹ Weinbren, *The Oddfellows*, p.47.

⁴¹⁰ *Ibid.*, p.163

send a written apology.⁴¹¹ We can assume from the evidence presented here that the majority of members either sent in an apology or took the fine.

e) Recruitment

Examining the recruitment process gives an indication of levels of membership engagement. As discussed in chapter 3, the existing members were responsible for recruiting new members. A candidate needed a proposer and seconder; the rest of the membership was responsible for vetting the applicant. The system only worked because members were prepared to give up their own time to enlarge the branch. If a high proportion of members were involved in the recruitment process then this would suggest that members were actively engaged in the governance and future growth of the society. Source material relating to the admission process is scarce. In this section the focus shifts to the Foresters because the archives in Southampton contain a number of proposition books (see chapter 3 for a discussion of this source material).

What proportion of members engaged in recruitment? **Table 4.6** lists the courts of the Foresters included in the sample. In three of the four courts around half of the members engaged in recruitment at some point. However the figures varied considerably by court and in the Pride of Suffolk court only 3% of members helped recruit. The percentage of members engaging in recruitment is a crude measure that does not take into account inequality between recruiters. A large proportion of members recruited just a handful of times while a small number were serial recruiters. In each proposition book I assigned every proposer and seconder a unique identification number, and then calculated the number of times each person either proposed or seconded another individual. **Figure 4.11** pools all of the sampled courts. The distribution has a clear power law, or non-normal distribution.⁴¹² The long tail to the right indicates that a large percentage of members only recruited once or twice (48.3%). Recruiting was dominated by a small but highly active group of members. Over the entire sample the top 20% of recruiters were responsible for 57.24% of recruitment activity. In other courts the ratio was higher (see **table 4.7**).

⁴¹¹ *Rules of the Loyal Walson lodge, Oxford District, MUIOOF* (Oxford, 1902), p.29.

⁴¹² P. Omerod, *Positive Linking: How Networks are Revolutionising Your World* (London, 2012), pp.160-192.

In contrast the bottom 20% of recruiters were only responsible for between 2% and 5% of recruitment activity.

Table 4.6: Details of Foresters courts used in a sample of proposition books to analyse recruitment patterns, England.

| | Court | | | |
|--|---------------------|--------------------|---------------------|------------------------|
| Name | Sons of Mariners | Lords of Bascoe | Pride of Suffolk | Queen of the Valley |
| Location | Bermondsey | Walsall | Ipswich | Ilkeston |
| Dates covered | 1842-1850 | 1875-1885 | 1903-1915 | 1894-1910 |
| No. of cases (proposers plus seconders) | 475 | 142 | 151 | 389 |
| No. of members recruiting | 53 | 38 | 20 | 42 |
| Court size and date | 109 (1850) | 73 (1885) | 517 (1915) | 83 (1910) |
| % of members engaged in recruitment | 48.63 | 52.03 | 3.86 | 50.60 |

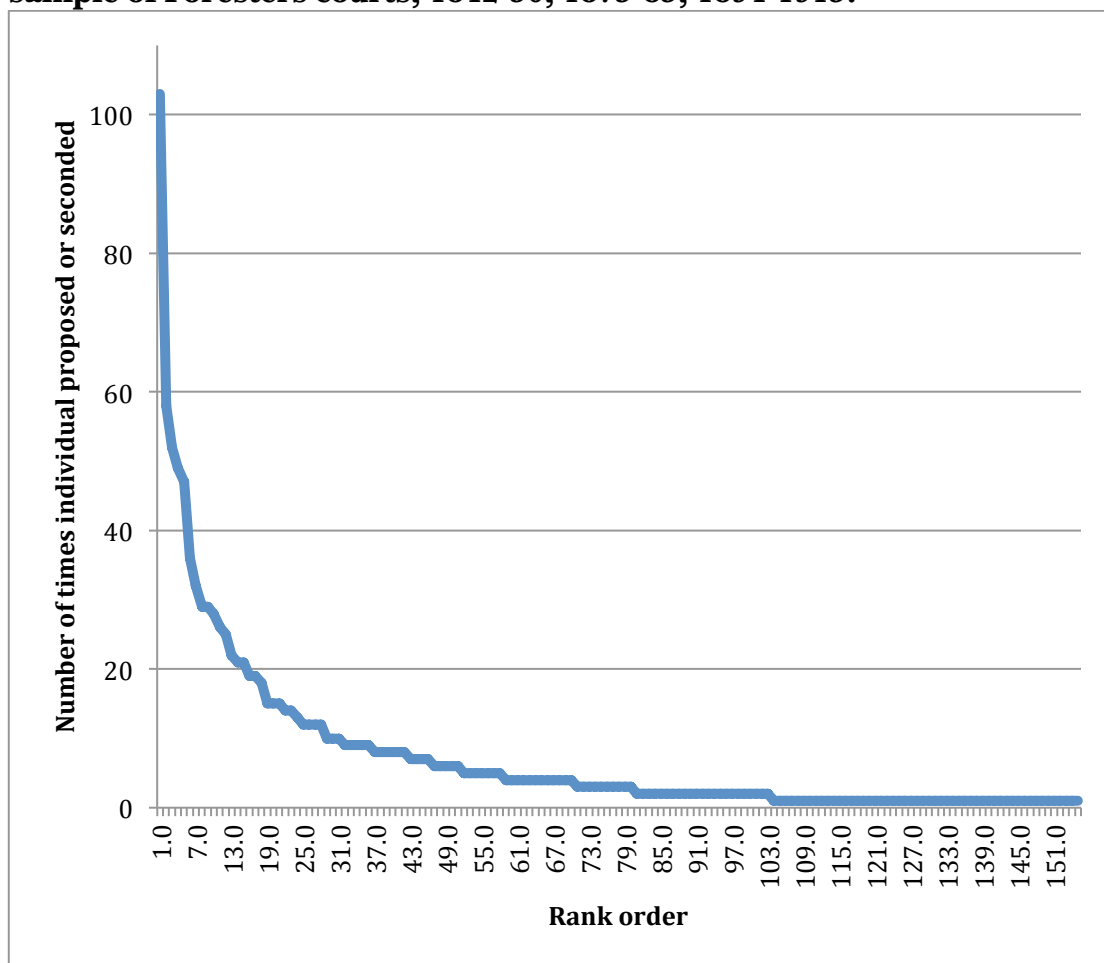
Note: Proposer = 595, Seconder = 565. *Sources:* Editions of the *Directory of the Ancient Order of Foresters Friendly Society* for 1850, 1885, 1910 and 1915. For proposition books see FHT, items B3/134, J4/138, B5/127, D3/118.

Table 4.7: Inequality in recruitment activity in sample of Foresters courts.

| | Court | | | | |
|---------------------------------------|--------------|-----------------------------|----------------------------|-----------------------------|--------------------------------|
| | All | Sons of Mariners | Lords of Bascoe | Pride of Suffolk | Queen of the Valley |
| % of recruitment by top 20% | 57.24 | 65.03 | 77.26 | 60.56 | 62.30 |
| % of recruitment by bottom 20% | 2.67 | 2.05 | 2.31 | 5.63 | 2.64 |
| Gini Coefficient | 0.641 | 0.587 | 0.700 | 0.510 | 0.565 |
| 20/20 ratio | 21.41 | 31.62 | 33.26 | 10.75 | 23.59 |

Sources: see source note table 4.6.

Figure 4.11: Frequency of recruitment activity arranged by rank in sample of Foresters courts, 1842-50, 1875-85, 1894-1915.



Sources: see source note table 4.6.

f) Lodge officials

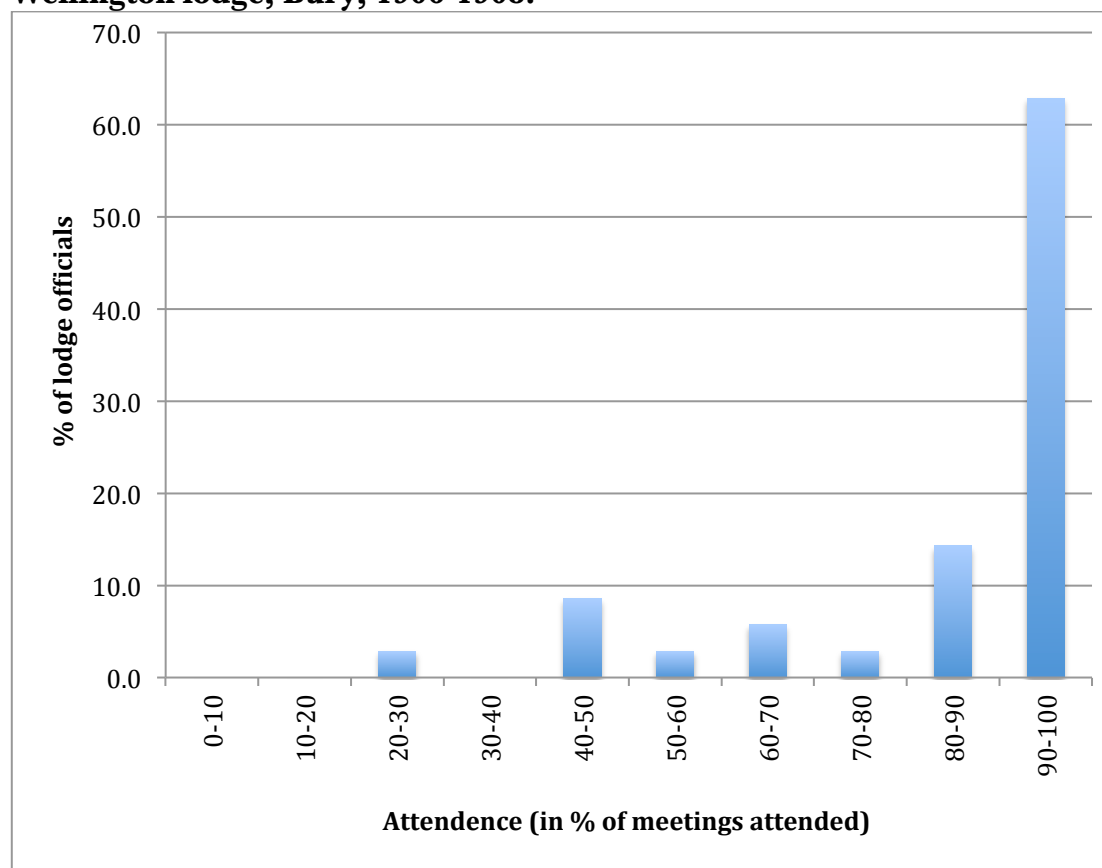
Lodge officers were often socially distinct from the bulk of the membership. A number of friendly society historians have argued that skilled workers and lower middle-class individuals played a prominent role in running the Oddfellows.⁴¹³ Based on the evidence presented above of low levels of attendance and high degrees of recruitment inequality, it is reasonable to hypothesise that a small clique of highly active members also controlled lodge governance. Some of the minute books listed the names of lodge officers. Through nominal linkage we can explore a number of

⁴¹³ Weinbren, *The Oddfellows*, pp.107-8; Gosden, *The Friendly Societies*, pp.88-93, 224-8; N. Kirk, *Growth of Working Class reformism in mid-Victorian England* (London, 1985), pp.198-9; N. Mansfield, *English Farmworkers and local patriotism, 1900-1930* (Aldershot, 2001), p.182; E. Edwards 'The Friendly societies and the ethic of respectability; Nineteenth Century Cambridge', (Cambridge College of Art and Technology, Ph.D. thesis, 1987), pp.498-9; D'Cruze and Turnbull 'Fellowship and Family', pp.25-47; Neave, *Mutual Aid*, p.56.

questions. What percentage of members became officials? How frequently did officers attend? How often were officials re-elected? And what proportion of the lodge stood for election?

Between January 1906 and January 1908 the minute book of the Duke of Wellington lodge in Bury recorded how frequently officers attended the fortnightly meetings.⁴¹⁴ The lodge appointed ten officials every half-year. Attendance was very high, with 62.9% of the officials attending between 80% and 100% of the meetings (see **figure 4.12**). This stands in contrast with the low levels of attendance by members generally.

Figure 4.12: Attendance of lodge officials at meetings, Duke of Wellington lodge, Bury, 1906-1908.



Sources: see footnote 414 page 206.

What percentage of members ascended to an official position? The practice of holding half-yearly or yearly elections was supposed to ensure no one group could

⁴¹⁴ ‘Minute Books of the Wellington lodge, Bury, 1896-1926’ (‘Minute Book – Bury, 1896-1907’ parts 1-2 and ‘Minute Book – Bury, 1907-1926’ parts 1-2) (OOA); For table see ‘Minute Book of the Wellington lodge, Bury, 1896-1907’ part 2 (OOA).

monopolise power.⁴¹⁵ Moreover in theory lodges could fine members for refusing to take up office. Six per cent of the fines issued by the Henry Jenkins Lodge in Scorton between 1839 and 1855 were for refusals.⁴¹⁶ This does not necessarily mean that positions were being offered to a large proportion of the members. Neave has argued that ‘as the natural leaders emerged certain members became semi-permanent office holders’.⁴¹⁷ In the Oddfellows archive there are two minute books that consistently listed the names of officials – the United Queen Victoria, Halifax, and the Wansford in England lodge, Wansford (Northampton). These were two very different lodges at different points in their history (see **table 4.8**). The observations for the United Queen Victoria Lodge relate to the very early days of the lodge when it was small and rapidly expanding. The Wansford in England lodge was founded in 1838 but the minute books listed officers from 1894 to 1916, by which stage the lodge was large and growing at a slow rate.

Table 4.8: Details for the United Queen Victoria and Wansford in England lodges.

| Lodge name | Location | Founded | Dates | Members | | Average Annual Growth Rate |
|-------------------------------|-----------------------|---------|-----------|---------|-----|----------------------------|
| | | | | Start | End | |
| United Queen Victoria, | Halifax, Yorkshire | 1840 | 1840-1865 | 22 | 118 | 17.45 |
| Wansford in England | Wansford, Northampton | 1838 | 1894-1916 | 369 | 425 | 0.689 |

Sources: ‘Minute Books of the Wansford in England lodge, Wansford, 1894-1917’ (‘Minute Book – Nene and Welland – 1894-1917’, parts 1-3) (OOA); ‘Minute Books of the United Queen Victoria lodge, Halifax, 1840-1905’ (‘Minute Book – Halifax – 1839-1865’ parts 1-2) (OOA). For source of membership figures see footnote 405 page 198.

In both lodges it was common for officials to be re-elected, serve in a number of roles or hop from one position to another. Using the directories it was possible to estimate the size of the lodge. In the early days of the United Queen Victoria Lodge a high percentage of members served in an official capacity. Over time participation levels fell, to 13% in 1865 (see **figure 4.13**). The Wansford lodge had a lower level of participation. Between 1896 and 1901 the percentage of members serving as an official hovered around 2%. The spike in participation between 1905 and 1908 was

⁴¹⁵ Neave, *Mutual Aid*, p.54.

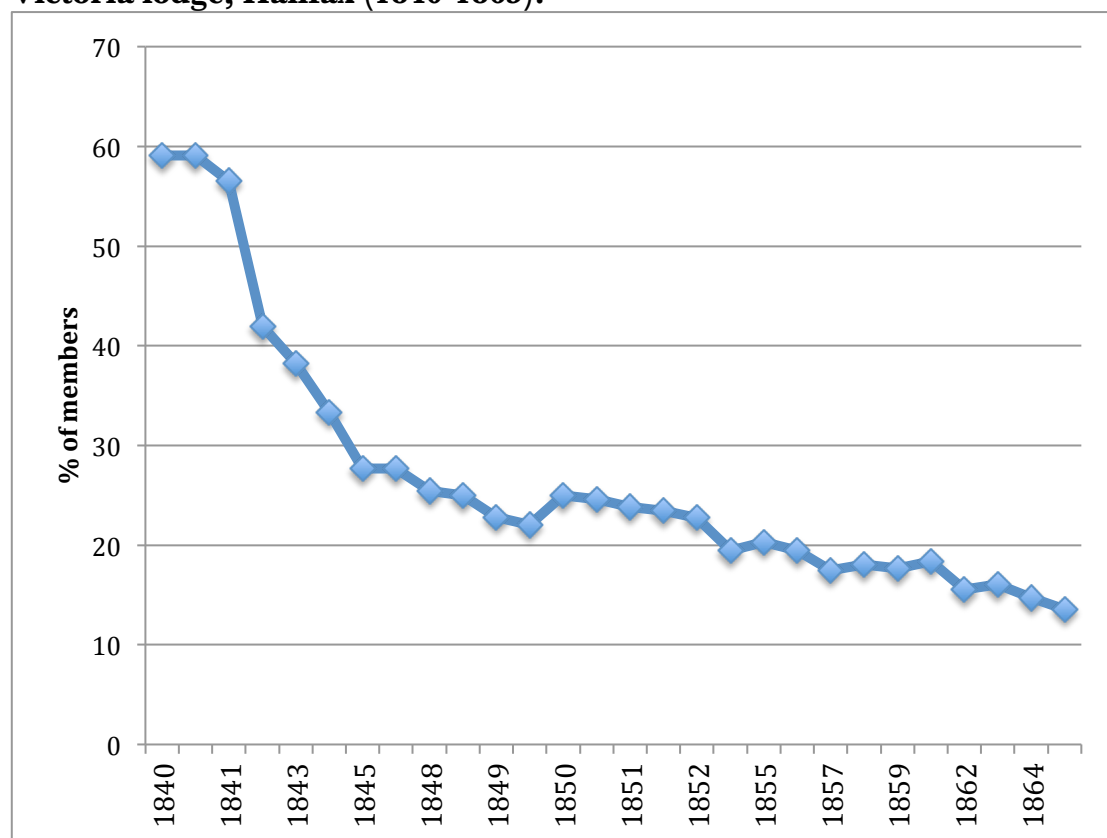
⁴¹⁶ Weinbren, *The Oddfellows*, pp.46-7.

⁴¹⁷ Neave, *Mutual Aid*, p.54.

because the lodge increased the number of official positions from 21 to 28 in 1908 and to 36 in 1912 (see **figure 4.14**). The lodge appointed a finance committee, a building committee, a distress committee and a management committee. This created an opportunity for inexperienced members to serve. However from 1910 participation rates fell back to their prior levels as the influential members quickly filled the new positions. This meant that even though the number of official positions per member had increased, the actual number of officials per member remained low.

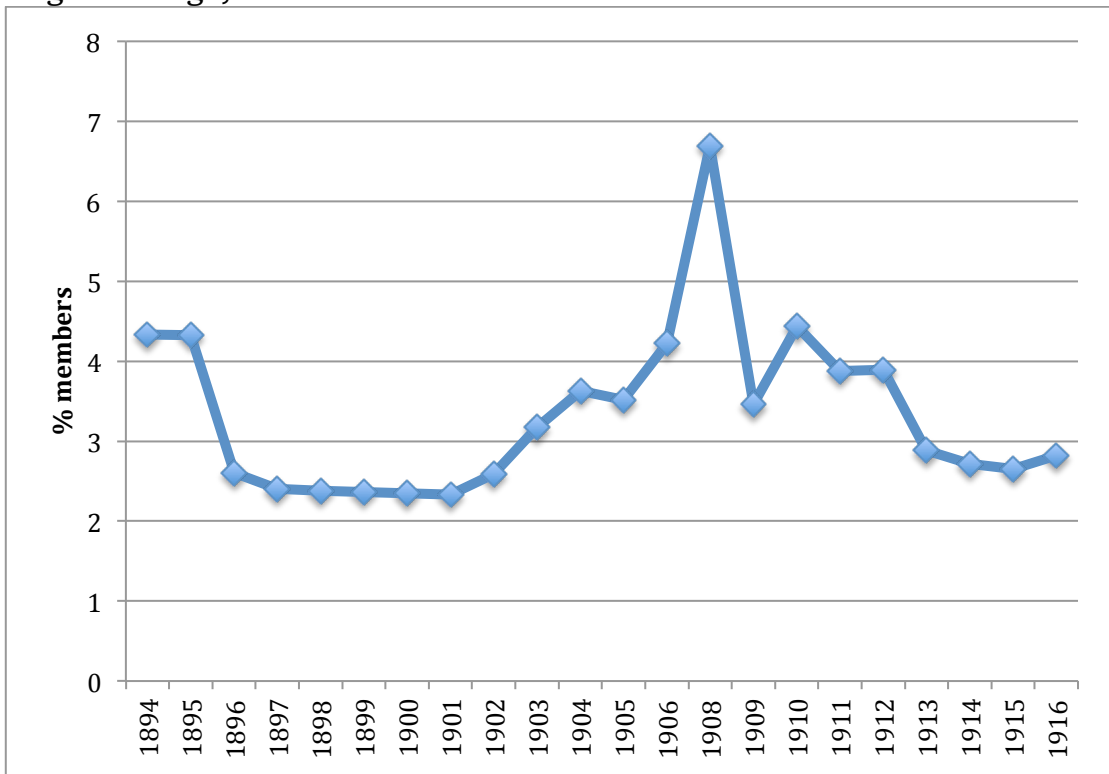
There was an oligarchic tendency in both lodges; power tended to concentrate in the hands of a small minority. In the United Queen Victoria lodge there was a high degree of inequality in the number of times members served in an official capacity. Of those members that did become officials 56.88% only did so once or twice. On the other hand the top 10 most experienced members served a total number of 161 times between them over 25 years. The top 20% most experienced officials had 55.9% of the total experience accrued by all officials between 1840 and 1865, while the bottom 20% had just 4.86% (see **figure 4.15**).

Figure 4.13: Percentage of members serving as an official, United Queen Victoria lodge, Halifax (1840-1865).



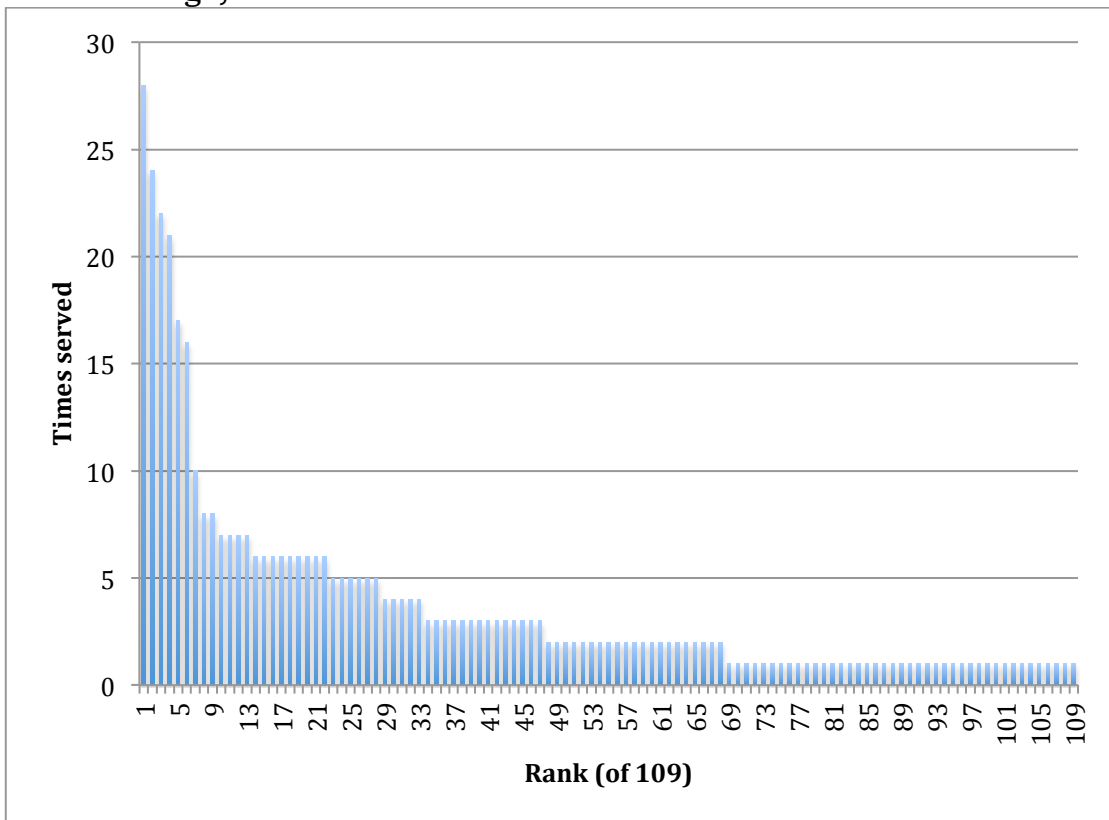
Sources: see source note table 4.8.

Figure 4.14: Percentage of members serving as an official, Wansford in England lodge, 1894-1916.



Sources: see source note table 4.8.

Figure 4.15: Inequality in experience of officials in United Queen Victoria lodge, 1840-1865.



Sources: see source note table 4.8.

It was also common for officials to ‘move through the chairs’, taking on different positions in succession. This practice ensured that a lodge didn’t lose the expertise of its most experienced members every year, and that administrative knowledge was passed on to new officials. The risk was that power and influence would concentrate in the hands of a few. The minute book of the United Queen Victoria lodge is sufficiently complete to make it possible to trace individuals over time. There were 17 official positions in the lodge.⁴¹⁸ Between 1840 and 1865 there were 411 separate appointments. Only 27.18% of these were not followed up with another appointment (excluding the final year in the sample, where logically all the appointments were final). Moreover 55.36% of officials serving in one time period would serve again in the next time period (see **table 4.9**). Members did ‘move through the chairs’ but it was much more common to be re-elected – indeed this was the most common type of movement from one time period to the next (see **table 4.10**).

Table 4.9: Time between phases of service as an official, United Queen Victoria lodge, 1840-1865.

| Years between phases of service | Freq. | % of those serving more than 1x | % of all observations |
|--|--------------|--|------------------------------|
| 1 | 222 | 76.03 | 55.36 |
| 2 | 23 | 7.88 | 5.74 |
| 3 | 10 | 3.42 | 2.49 |
| 4 | 11 | 3.77 | 2.74 |
| 5 | 5 | 1.71 | 1.25 |
| 6 | 5 | 1.71 | 1.25 |
| 7 | 4 | 1.37 | 1.00 |
| 8 | 3 | 1.03 | 0.75 |
| 9 | 2 | 0.68 | 0.50 |
| 10 | 2 | 0.68 | 0.50 |
| 11 | 1 | 0.34 | 0.25 |
| 13 | 1 | 0.34 | 0.25 |
| 15 | 1 | 0.34 | 0.25 |
| 19 | 1 | 0.34 | 0.25 |
| 24 | 1 | 0.34 | 0.25 |
| Never served again. | 109 | | 27.18 |

Sources: see source note table 4.8.

⁴¹⁸ Assistant secretary, conductor, Grand Master, host, inside Guardian, left hand supporter no. 1, left hand supporter no. 2, Noble Grand, outside Guardian, Permanent Secretary, right hand supporter no. 1, right hand supporter no. 2, Secretary, sick steward, treasurer, Vice Grand, Warden).

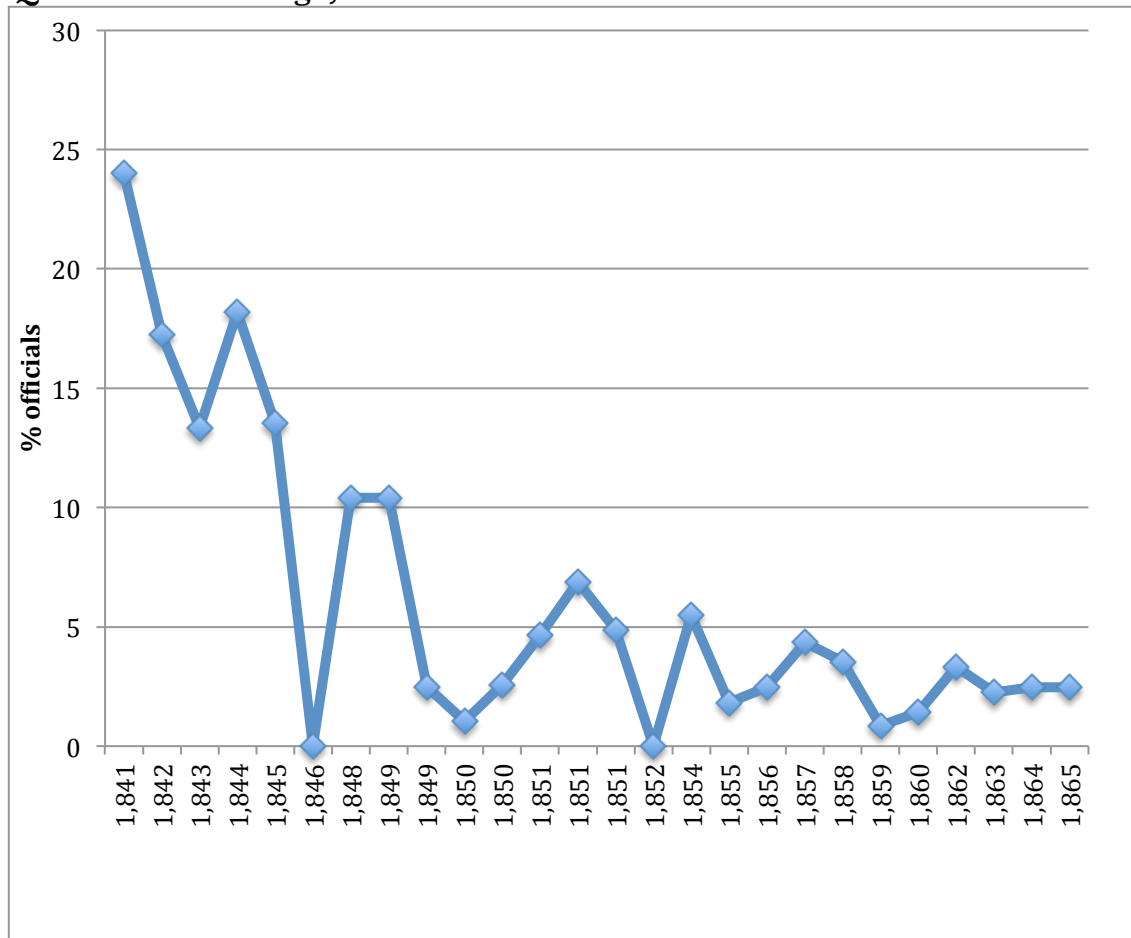
Figure 4.10: Most common transitions between official positions, United Queen Victoria lodge, 1840-1865.

| Position 1 (at t) | Position 2 (at t+1) | Percentage of officials serving in position 1 at t moving to position 2 in t+1 | Re Election |
|--------------------------|----------------------------|---|--------------------|
| Assistant Secretary | Assistant Secretary | 96.43 | Yes |
| Conductor | Conductor | 95.00 | Yes |
| Host | Host | 85.71 | Yes |
| Outside Guardian | Outside Guardian | 57.14 | Yes |
| Grand Master | Grand Master | 50.00 | Yes |
| Permanent Sec | Permanent Sec | 50.00 | Yes |
| Sick Steward | Sick Steward | 40.00 | Yes |
| Treasurer | Treasurer | 40.00 | Yes |
| Vice Grand | Noble Grand | 37.04 | No |
| Left Supporter 1 | Left Supporter 1 | 32.14 | Yes |
| Noble Grand | Grand Master | 28.57 | No |
| Right Supporter 2 | Right Supporter 1 | 25.00 | No |
| Left Supporter 2 | Left Supporter 2 | 25.00 | Yes |
| Secretary | Vice Grand | 25.00 | No |
| Right Supporter 1 | Right Supporter 1 | 21.43 | Yes |
| Right Supporter 2 | Right Supporter 2 | 21.43 | Yes |
| Warden | Warden | 21.43 | Yes |
| Sick Steward | Vice Grand | 20.00 | No |
| Inside Guardian | Permanent Sec | 14.29 | No |
| Permanent Sec | Outside Guardian | 11.11 | No |

Sources: see source note table 4.8.

In summary, over the period the United Queen Victoria lodge became more oligarchic. In the first few years a large percentage of officials were necessarily serving for the first time. In **figure 4.16** the first two years have been excluded. After a decade the percentage of officials that were serving for the first time was as low as 4.6%, and between 1850 and 1865 that figure hovered between 6% and zero. In contrast the percentage of officials re-elected or moving over to another position remained high, hovering between 70% and 80% between 1840 and 1865. In 1845 and 1850 every official was either re-elected or appointed to another role.

Figure 4.16: Percentage of officials serving for the first time, United Queen Victoria lodge, 1840-1865.



Sources: see source note table 4.8.

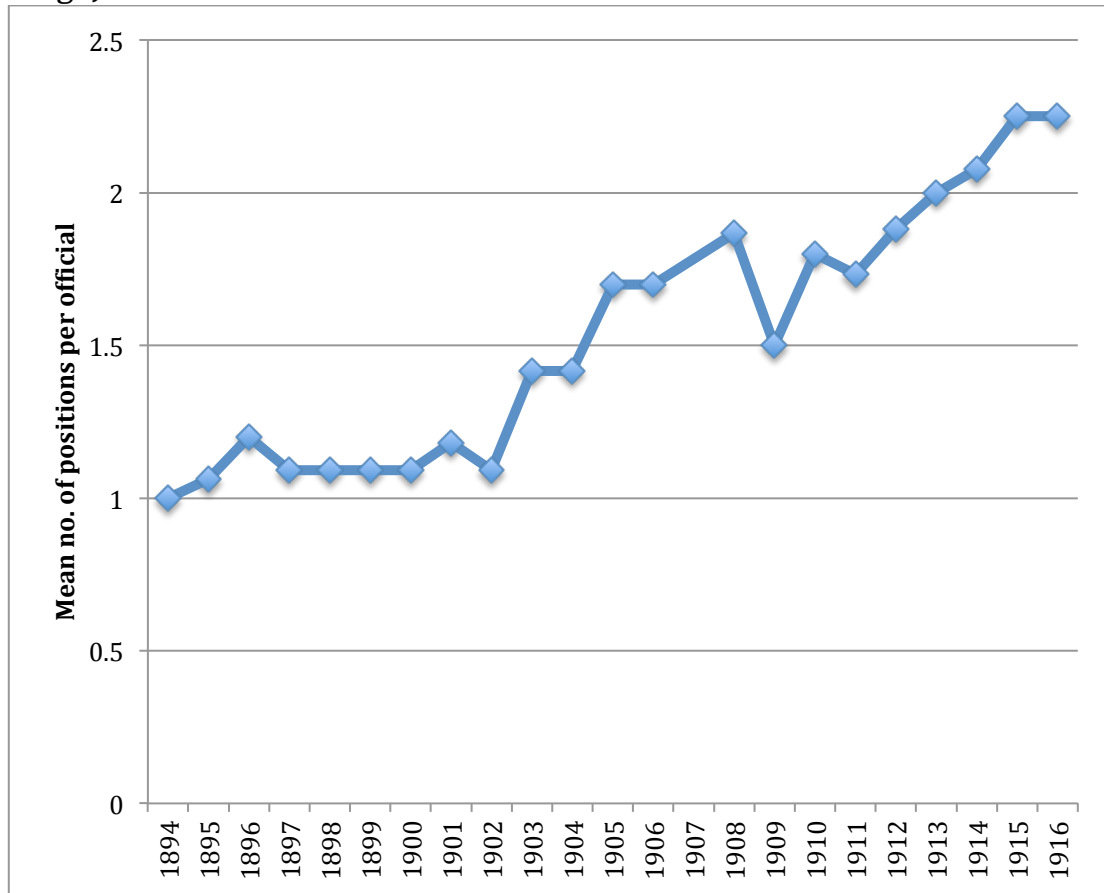
Office holding was even more closed in the Loyal Wansford in England lodge. It was common for members to hold a number of positions at the same time. Of the 275 members appointed between 1895 and 1916 33.4% held more than one position at a time. The majority of officials had just one other role, but some individuals held as many as five positions (see **table 4.11**). As discussed, the lodge established a number of new positions from 1905. This gave inexperienced members an opportunity to participate, but it also allowed the governing clique to hoard more influence and the average number of positions held by officials increased from 1 in 1894 to 2.25 in 1916 (see **figure 4.17**).

Table 4.11: Number of positions held by officials at the same time, Loyal Wansford in England lodge, 1894-1916.

| Number of positions held at same time | Frequency | % |
|---------------------------------------|-----------|------|
| 1 | 183 | 66.5 |
| 2 | 56 | 20.4 |
| 3 | 21 | 7.6 |
| 4 | 10 | 3.6 |
| 5 | 5 | 1.8 |

Sources: see source note table 4.8.

Figure 4.17: Mean number of positions per official, Wansford in England lodge, 1894-1916.

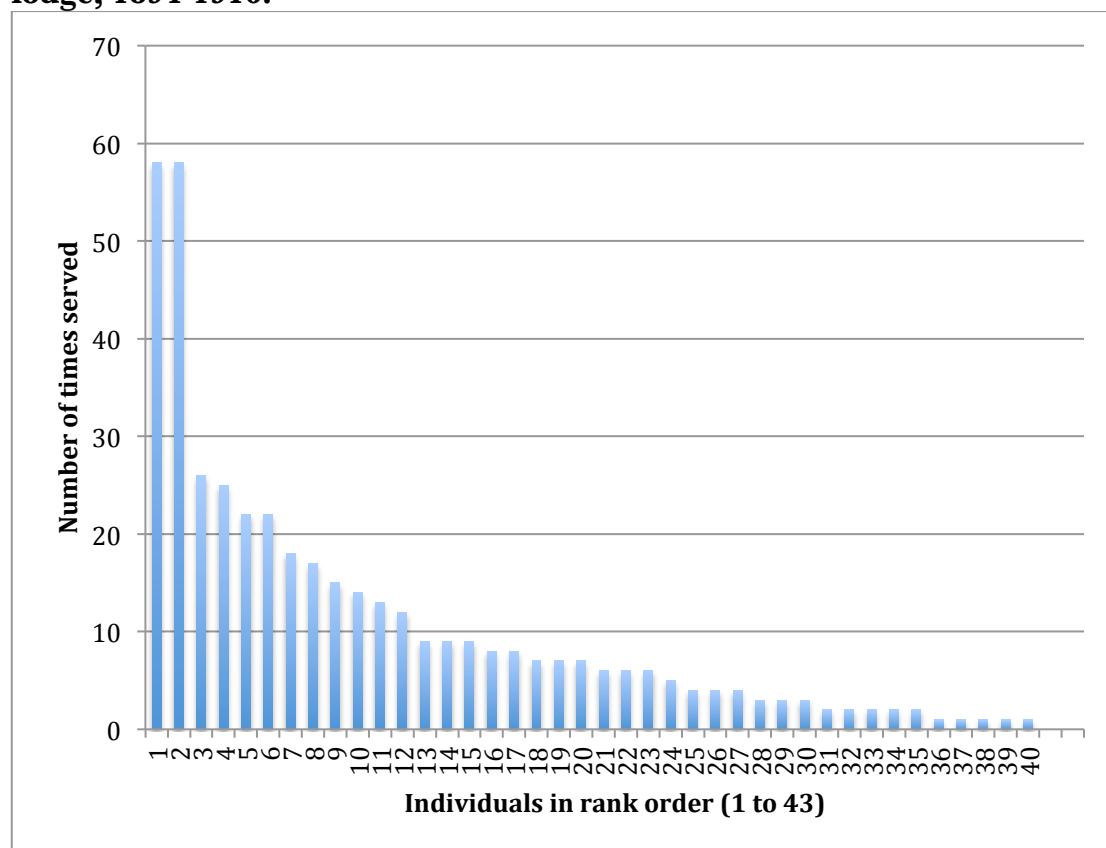


Sources: see source note table 4.8.

There was a remarkable degree of concentration of power in the Wansford lodge. Between 1896 and 1916 43 members became officials. The top 20% of officials gained 55.9% of the total experience accrued by lodge officials, in contrast to the 2.36% held by the least experienced 20% (see **figure 4.18**). Experience was more evenly distributed than in the United Queen Victoria lodge. The tail in **figure 4.18** falls at a slower rate than in **figure 4.15**. However whereas the latter lodge had a 20/20 ratio of 11.6, the same figure for the Wansford lodge was 24.59, meaning there

was a higher degree of inequality separating the most experienced and the least experienced members. Examining the tenure length of officials illustrates this point. In Wansford nine individuals (20.9% of all officials) were in an official position (one or more) for 20 years or more (see **figure 4.19**). In contrast 32% of officials were in tenure for 3 years or less.

Figure 4.18: Inequality in experience of officials in Wansford in England lodge, 1894-1916.

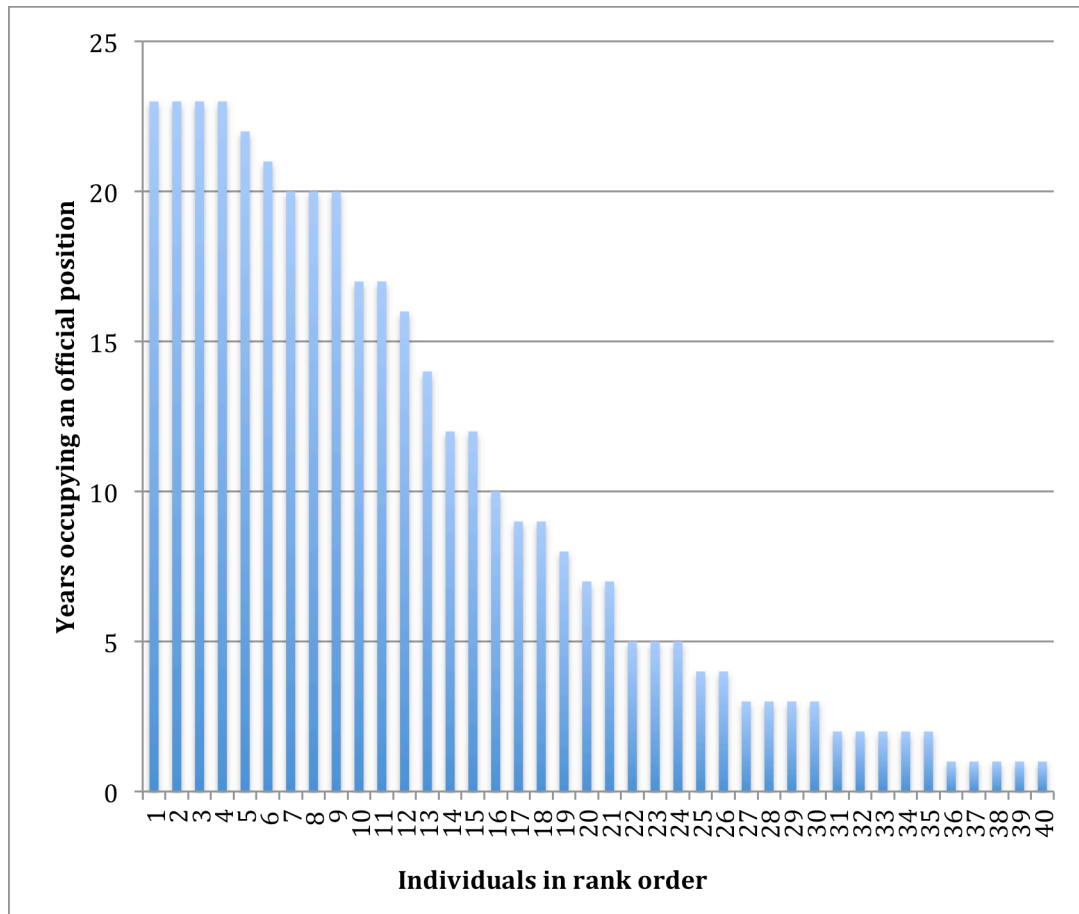


Sources: see source note table 4.8.

What proportion of members stood for election to an official position? Friendly societies were, in theory, democratic institutions – governed by the members for the members.⁴¹⁹ In the Loyal Rising Star (Beverley) and Wansford in England (Wansford, Northampton) lodges the percentage of members standing for election never rose above 3.5%. In the Eastwood lodge this figure was even lower, never rising above 2% (see **figure 4.20**). Overall these results suggest a low level of engagement (see **table 4.12**).

⁴¹⁹ D. Neave, ‘Friendly Societies in Great Britain’, in van der Linden, *et al.*, (eds.), *Social Security Mutualism*, p.53

Figure 4.19: Tenure of officials in the Wansford in England lodge, 1894-1916.



Sources: see source note table 4.8.

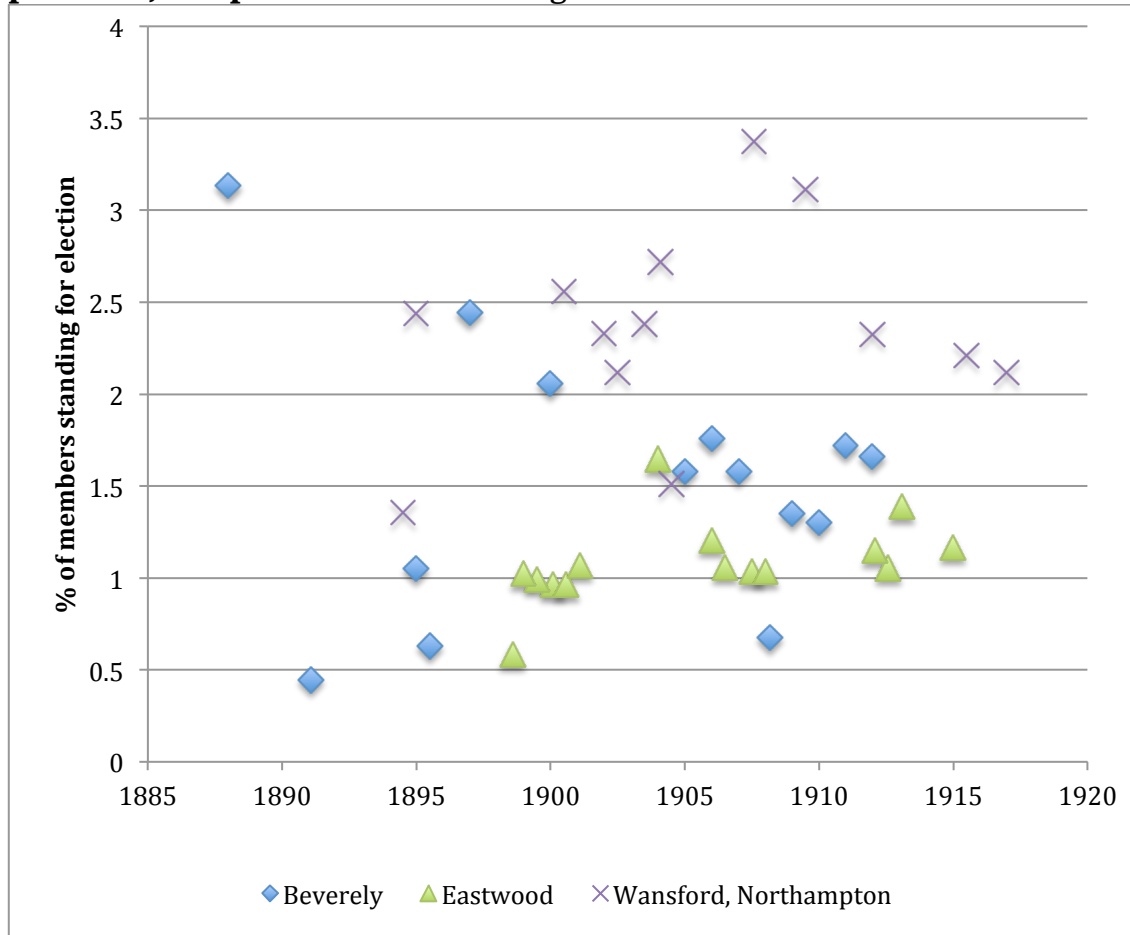
The rules of the loyal Walton lodge in Oxford stated that ‘every member shall have an equal voice on all the property and concerns of the lodge’.⁴²⁰ The evidence presented thus far in this chapter suggests that this was a romantic perspective. Lodges seem to have been oligarchic. Power and influence were concentrated in the hands of a small clique of members that dominated recruitment and office holding. These findings support Gorsky’s notion that the average lodge had a core cadre of highly involved individuals and a large periphery of apathetic and disengaged ordinary members.⁴²¹ When taken on its own this observation does not undermine seeing Oddfellows lodges as hubs of social capital. Less active members still had access to a social network even if they didn’t take any responsibility for running the lodge. However when we consider the oligarchic nature of lodge governance alongside the evidence of low attendance and infrequent meetings there are strong

⁴²⁰ *Rules of the Loyal Walton lodge*, p.9.

⁴²¹ Gorsky, ‘Mutual Aid’ pp.321-22; Fisk, *Mutual self-help*, p.155.

grounds for thinking that participation in the Oddfellows in Britain did not generate a significant ‘stock’ of social capital.

Figure 4.20: Percentage of members standing for election to official positions, sample of Oddfellows lodges 1885-1920.



Source: see footnotes 405 and 407, pages 198-9.

Table 4.12: Percentage of members standing for election, sample of Oddfellows lodges, 1886-1916.

| % of members standing for election | Frequency | % | Cumulative % |
|---|------------------|----------|---------------------|
| 0-1 | 7 | 16.67 | 16.67 |
| 1-2 | 21 | 50.00 | 66.67 |
| 2-3 | 11 | 26.19 | 92.86 |
| 3-4 | 3 | 7.14 | 100.00 |
| Total | 42 | | |

Source: see footnotes 405 and 407, pages 198-9.

Section 2: Friendly societies and social capital in Australasia

In Australasia friendly society representatives also complained that the movement had lost its soul. In 1914 one official of the Sydney district of the Oddfellows complained that ‘more could have been done, had the members only considered their duty, not only to themselves, but to their neighbours... to carry out their part of the ritual in doing unto others they they would have done unto them... and not simply paying in contributions’.⁴²² In 1905 the Grand Master of the North Canterbury district of the IOOF complained ‘the majority of the members are not interested; they do not care what happens so long as the doctor attends and the sick pay is promptly forwarded’.⁴²³ In 1902 a contributor to the Australian *Foresters Review* reiterated the suspicion that ‘there are too many members of the Society... who look on friendly societies as being nothing better than cheap assurance societies, quite forgetting the obligations they took on joining to combine for mutual help in times of need and trouble’.⁴²⁴ As in Britain, contemporaries saw that there was a tension between social and the financial considerations. In 1883 a Royal Commission investigating friendly societies in New South Wales found that ‘a large number of the principle societies discouraged... the elements of social enjoyments and conviviality,... which has now given place to a feeling that, to be successful, they must be carried out upon rigorously business principles’.⁴²⁵ A decade prior in a series of letters in the Australian *Friendly Society Record* on the topic of ‘display vs. economy’ one official called regalia ‘tomfoolery’ and ‘an expensive and useless piece of humbug’.⁴²⁶

Yet when compared with Britain the transition from ‘box club’ to insurance organisation was less complete. In Britain the ballooning size of branches can be seen as a trend underpinning many of the changes described in section one. Size was good for the insurance function of societies, but as the New Zealand Registrar acknowledged in 1911, there were negative social consequences.⁴²⁷ Particularly large

⁴²² *Report of the Quarterly Meeting of the Sydney District of the MUIOOF, July 1914* (Sydney, 1914), pp.7-8 (ML.334/706. 2).

⁴²³ Carlyon, ‘New Zealand Friendly Societies’, p.66.

⁴²⁴ Green and Cromwell, *Mutual Aid*, p.18.

⁴²⁵ *Report of the Royal Commission, to inquire into and report upon the working of the Friendly Societies Act* (Sydney, 1883), p.26.

⁴²⁶ *The Friendly Society Record*, May 1872, p.45 (NLA.FER F6372a).

⁴²⁷ *Friendly Societies: Report of the Registrar for New Zealand for the Year 1910*, in AJHR, Session 1, section H-01, (1911), p.9.

branches were unsuitable for the type of collaborative, hands-on administration that defined the affiliated society model.⁴²⁸ In Britain the increasing size of branches set off a spiral of low engagement and the concentration of power in the hands of a small clique. In June 1888 a number of contributors to the *Oddfellows' Magazine* in Australia highlighted this dilemma, with one writer complaining that lodges with 200 to 400 members were barely able to fill essential positions.⁴²⁹

When compared to Britain, Australasian branches were much smaller. Between 1865 and 1920 the number of members per branch of the Foresters and Oddfellows in New Zealand and Australia was persistently lower than in England (see **figures 4.21** and **4.22**). This pattern held for all the affiliated societies in Australasia, with some regional variation. In 1907 the average English lodge of the Oddfellows had 206.3 members. The figures for North America (the US and Canada combined), Australia and New Zealand were 83.6, 112.7, and 110.1 respectively.⁴³⁰ There were also more very small lodges in these regions. In Australia and New Zealand 67% and 59% of lodges had fewer than 100 members (see **figure 4.23**).

Branch size waxed and waned with the economic booms and busts that typified 'settler capitalism'.⁴³¹ In boom times admissions rose, new branches were formed and the number of members leaving as a consequence of falling into arrears fell. The founding of branches was highly erratic. **Figure 4.24** is based on the courts of the Foresters still in operation in 1913. In Australia the expansion process began during the 'long boom' of the 1860s and 1870s. In New Zealand the expansion was more delayed but equally erratic year-on-year. The expansion of courts into the US was at its most intense between 1885 and 1900. This was probably because this was a period of high migration from Britain.⁴³² The pattern of expansion in Canada also suggests that migration from Britain was associated with the formation of new courts. There was a large upswing in the number of new courts between 1900 and 1913, which coincided with a large increase in immigration from Britain. As long as the increase in the number of members outstripped the increase in the number of

⁴²⁸ Fisk, *Mutual Self-help*, p.178.

⁴²⁹ Green and Cromwell, *Mutual Aid*, p.35.

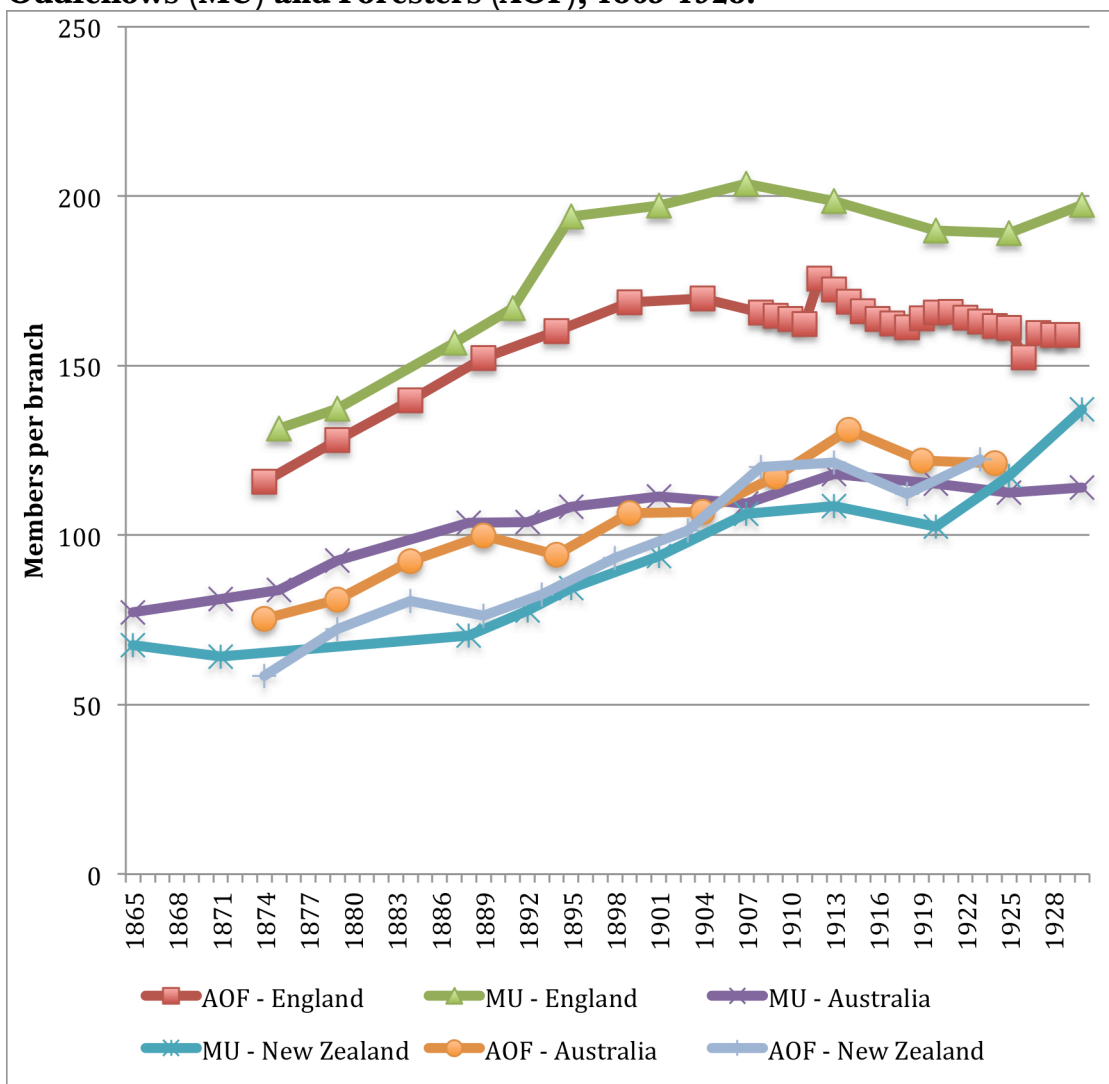
⁴³⁰ All differences significant at the 1% level.

⁴³¹ Belich, *Replenishing*, pp.548-560.

⁴³² D. Baines *Migration in a Mature Economy: Emigration and internal migration in England and Wales, 1861-1900* (Cambridge, 1985), pp.136-7.

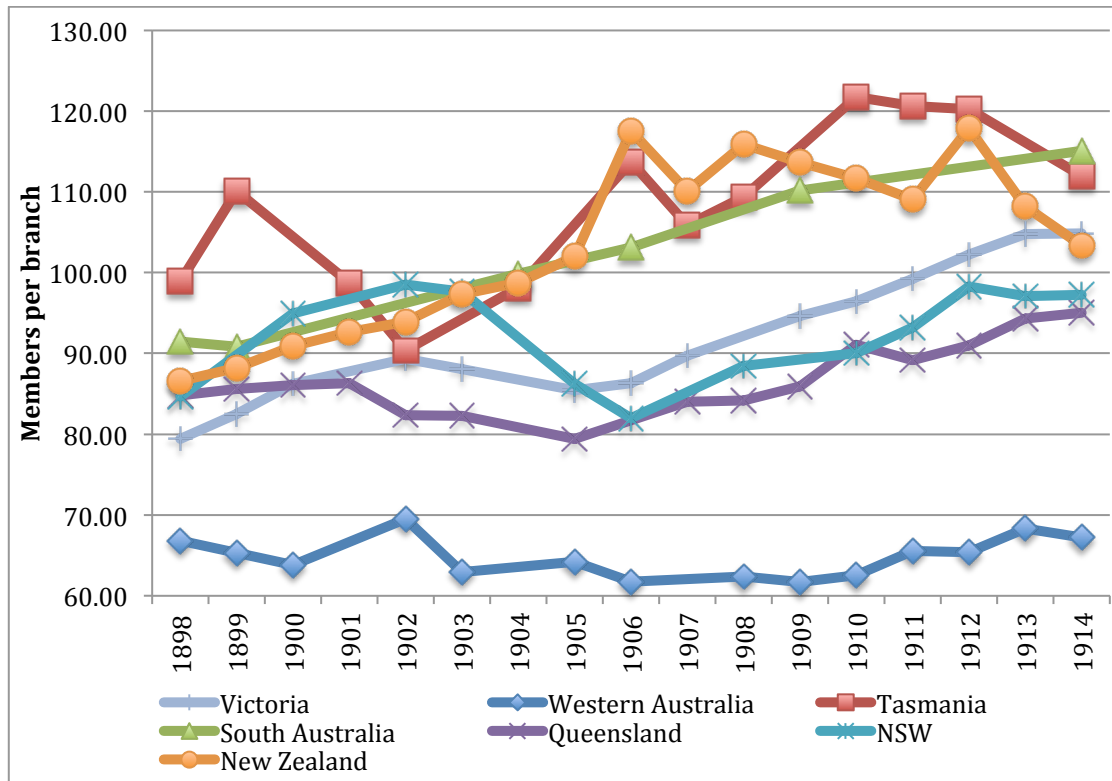
branches, then average branch size increased. Economic busts reversed the trend. In bust times admissions fell, secessions increased, and consequently some branches collapsed. In Victoria the bust of the 1890s was associated with a sharp fall in average branch size (see **figure 4.25**), meaning that the net loss of members must have been greater than the number of branches closing. This suggests that branches were in fact relatively resilient to economic downturns. It is plausible that the whittled down branches that survived the 1890s emerged more socially cohesive, consisting of only the more committed members.

Figure 4.21: Members per branch in England and Australasia, Oddfellows (MU) and Foresters (AOF), 1865-1928.



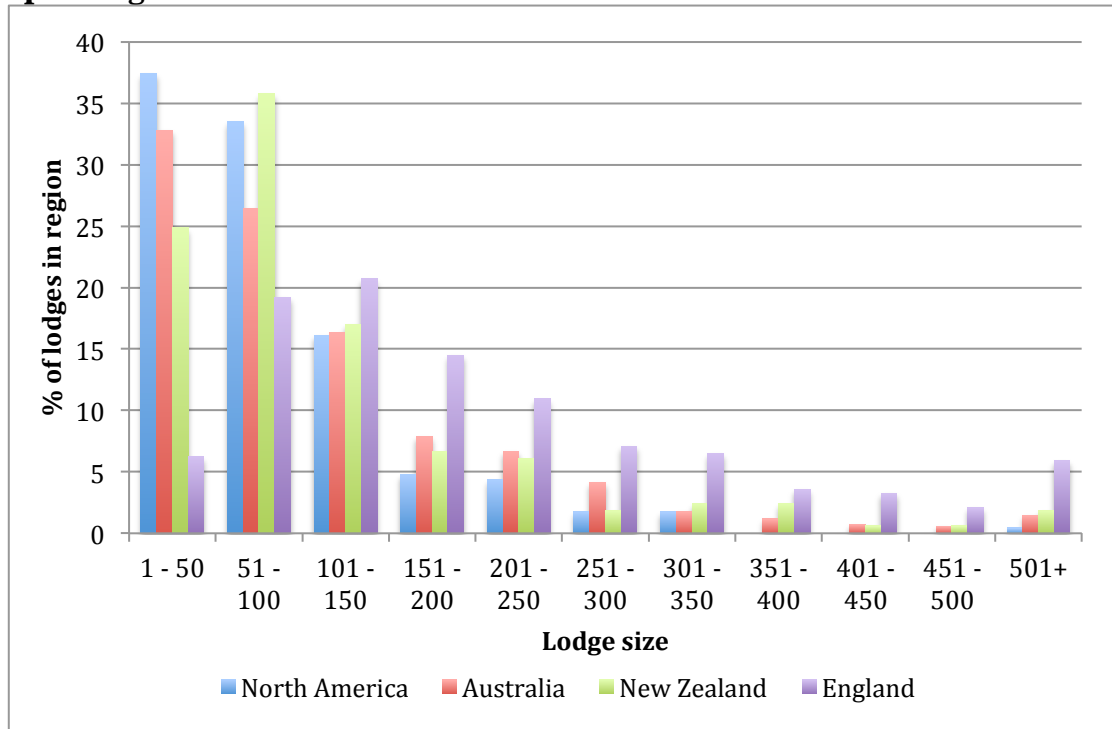
Source: Available editions of *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity*, between 1874-1930 (OOA), see footnote 39 page 8; *Directory of the Ancient Order of Foresters Friendly Society*, 1874-1929 (FHT); successive editions of *Friendly Societies: Report of the Registrar for New Zealand*, between 1877 and 1930.

Figure 4.22: Members per branch around Australasia, all affiliated societies 1898-1928.



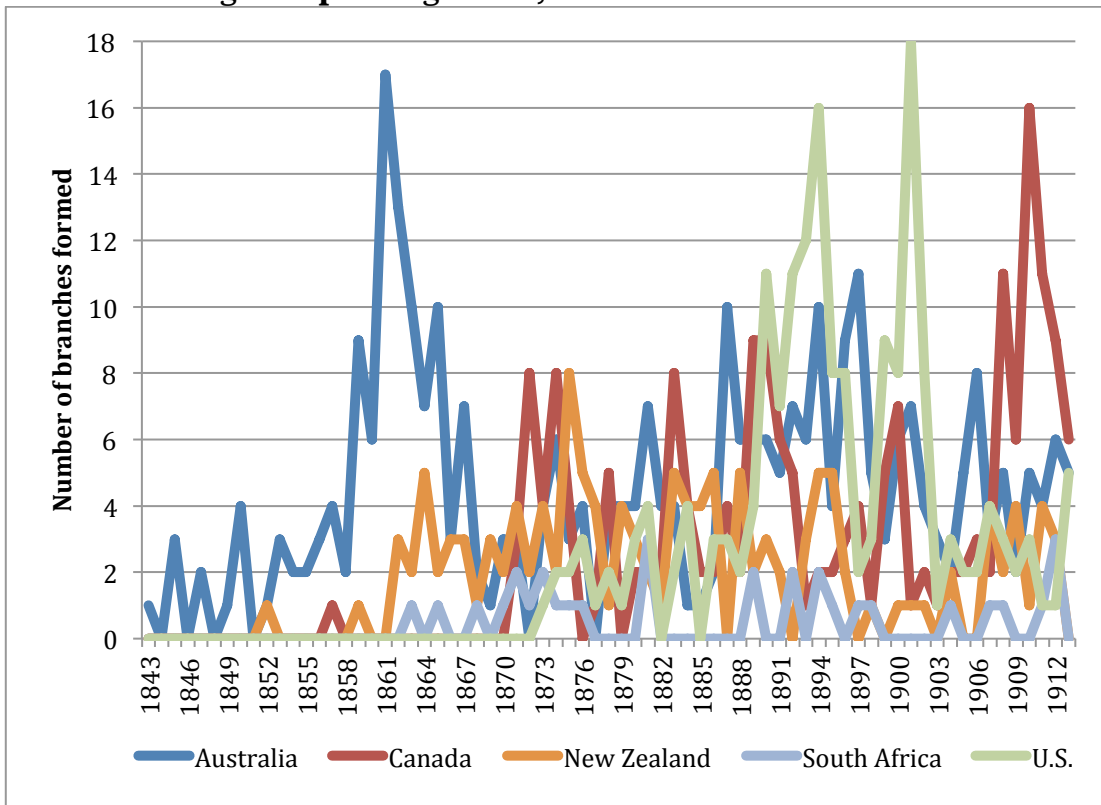
Note: This graph shows the number of members per branch of all affiliated societies pooled together. Source: Successive editions of *Friendly Societies: Report of the Registrar for New Zealand*, and in reports for the years 1898-1914.

Figure 4.23: Size of lodges of the Oddfellows around the English-speaking world in 1907.



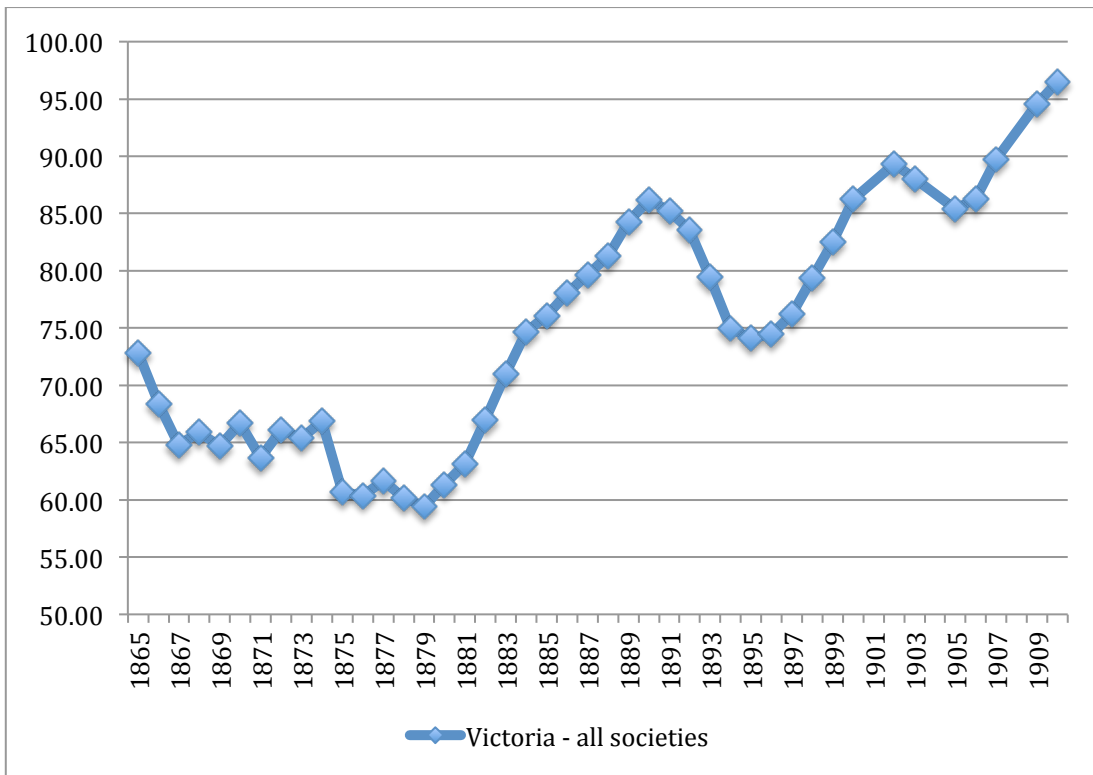
Source: *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1907* (Manchester, 1907) (OOA).

Figure 4.24: Timing of expansion of Foresters into different regions around the English-speaking world, 1843-1913.



Source: *Directory of the Ancient Order of Foresters Friendly Society for 1914* (FHT).

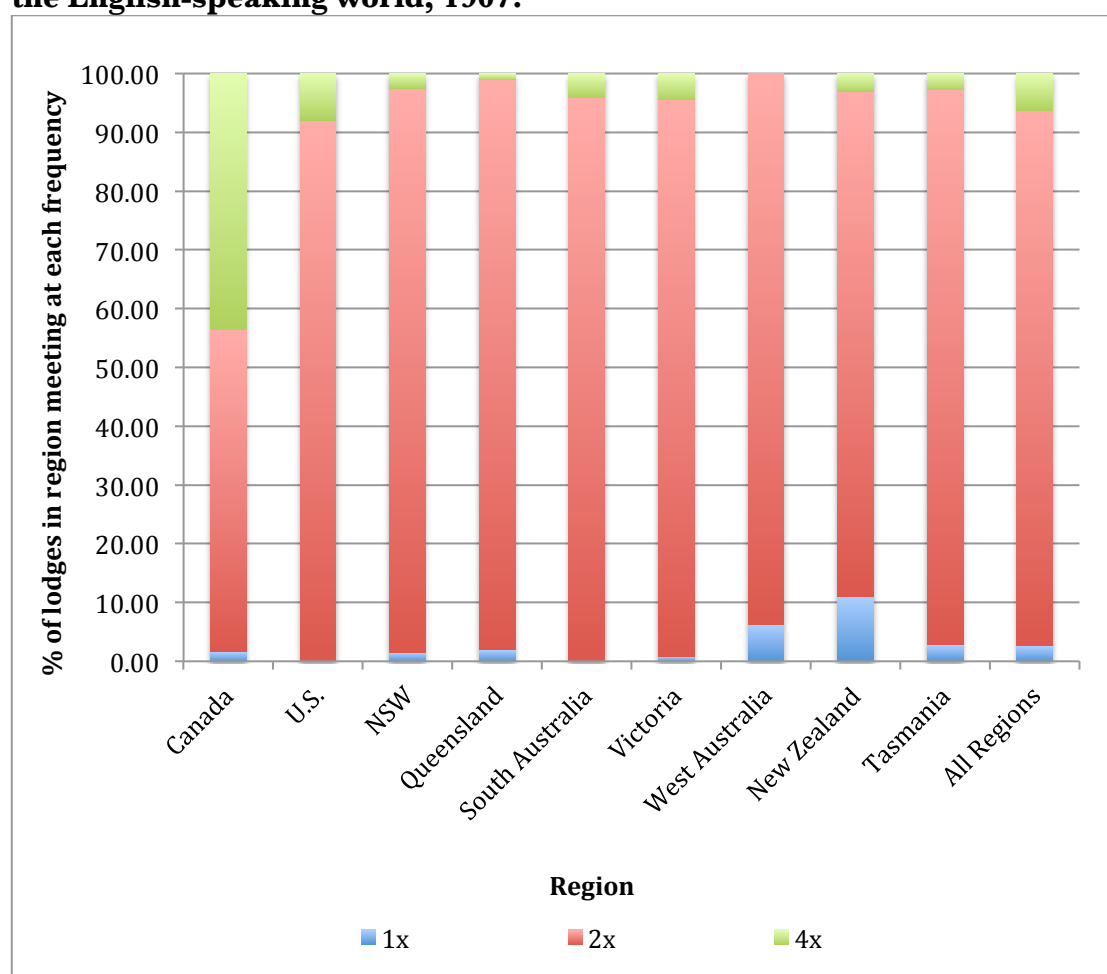
Figure 4.25: Members per branch of all affiliated societies in Victoria, 1865-1910.



Source: Successive editions of 'Statistics of Friendly Societies', in *The Statistical Register for the colony of Victoria*, (ML.. Q319 2/V), 1870-1911, and *Official Year Book of the Commonwealth of Australia*, 1905-1910.

Not only were the branches of the Oddfellows smaller in Australasia than in Britain, but at the beginning of the twentieth century they also met more frequently. In the sample of 338 English lodges in the 1907 directory 55.3% met just once a month, 39.9% twice and 4.73% every week. In all the other regions of the English-speaking world it was rare for lodges to meet less than twice a month (see **figure 4.26**). The significantly smaller lodges in North America led the way; 43.5% and 8% of Canadian and US lodges meeting every week. In every region of Australasia the vast majority of branches met twice a month.

Figure 4.26: Frequency of meeting of lodges of the Oddfellows around the English-speaking world, 1907.



Note: This is a complete sample of every lodge recorded in the Directory for 1907. The number of lodges in each region are as follows: Canada – 67, US – 162, NSW – 198, Queensland – 100, South Australia – 99, Victoria – 223, West Australia – 16, New Zealand – 162, Tasmania – 36. *Source:* *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1907* (Manchester, 1907), pp.204-248 (OOA).

In the US fraternal associations erected halls across the length and breadth of the country.⁴³³ By the turn of the century the lodge hall was a staple feature of most towns in the US, and its construction was a major moment in the birth of a settlement.⁴³⁴ As demonstrated, in Britain it was more common for Oddfellows lodges to meet in alehouses and hotels, although meeting in halls became more popular in the final quarter of the nineteenth century. In Australasia lodges faced similar pressures to relocate their meetings to ‘respectable’ spaces. In 1858 seventeen of the twenty Oddfellows lodges in the Port Phillip district met in inns, hotels or pubs. By 1907 this figure had fallen to zero, and only 6 of the 40 lodges met in hotels.⁴³⁵ The 1883 Royal Commission on friendly societies in New South Wales observed that most ‘societies discourage the meeting of their subordinate branches in public houses, which was at one time almost universal.’⁴³⁶

As in Britain the transition from meeting in pubs to other spaces was more complex than a simple decline in sociability and conviviality. Australian friendly societies increasingly met in purpose built halls, as was the case with fraternal associations in the US. At the beginning of the twentieth century the New Zealand Registrar commented on the ‘passion for building halls’, which was so extravagant that some branches nearly went bankrupt.⁴³⁷ When compared with a subsample of 798 English lodges in the 1907 directory of the Oddfellows, Australasian lodges were disproportionately more likely to meet in halls (see **table 4.13**).⁴³⁸ Only 10% of the sample of English lodges met in an Oddfellows Hall, Friendly Society Hall or Masonic Hall. In Australasia 27.5% of lodges met in an Oddfellows Hall, with a further 16.9% meeting in Manchester Unity Halls, Masonic Halls and Friendly Society Halls. A very low number, just 4.1%, met in pubs and only 8.5% met in hotels. ‘Respectable’ spaces like public halls, schoolrooms, mechanics institutes and other educational establishments were also popular, but none rivalled the lodge hall

⁴³³ C. Putney, ‘Service Over Secrecy: How Lodge-Style Fraternalism Yielded Popularity to Men’s Service Clubs’, *Journal of Popular Culture*, 27, 1, (1993), p.181.

⁴³⁴ R.A. Bartlett, *The New Country: A Social History of the American frontier, 1776-1890* (New York, 1974), p.346.

⁴³⁵ *The Proceedings of the Port Phillip District Grand Annual Moveable Committee of the MUIOOF, 29th June 1858* (Melbourne, 1858), p.11 (NBA.Z262, Box 374); *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, 1907* (Manchester, 1907), pp.235-6 (OOA).

⁴³⁶ Green and Cromwell, *Mutual Aid*, p.29.

⁴³⁷ Carlyon, ‘New Zealand Friendly Societies’, pp.164-5.

⁴³⁸ For examples of halls, see *ibid.*, pp.67-68.

as the dominant forum in which Australasian branches conducted their bi-weekly business.

There were a number of reasons why Australasian friendly societies favoured meeting in their own halls. A large number of branches were founded in the 1860s and 1870s (see **figure 4.24**) at time when many settlements were still being built from scratch. Consequently it was often the case that there weren't many places to meet and so it made sense to construct a purpose built hall, especially given the wealth of Australasian societies – a consequence of better returns on capital, higher wages and lower morbidity and mortality rates (see **chapter 5**). Sydney and Melbourne were booming cities and there was a huge expansion in construction before the bust of the 1890s.⁴³⁹ It is plausible that lodges adapted and joined in the building bonanza. It is also possible that halls were better suited to the social demands of Australasian members than pubs were. It is striking that 5.8% of Australasian lodges met in Masonic Halls when less than 1% of English lodges did so. This is indicative of a broader commitment to cultural practices popular in the American fraternal movement, in particular ritualism. Meeting in a hall was a highly effective way of cementing bonds between members and emphasising the distinction between brothers inside the hall, and those 'others' outside.⁴⁴⁰ The American fraternal movement became religious in tone and the lodge hall became a sacred space in which rituals were conducted.⁴⁴¹ There is some anecdotal evidence that Australian officials conceptualised halls in a similar way. In 1871 one supporter of halls argued that 'a society, like an individual, is benefitting by having the feeling of independence derived from the consciousness that the roof under which it is abiding is *its* abiding place, is its *own*, purchased with years of savings, and a memento of the good results following a judicious providence'.⁴⁴² The same author argued that they would 'improve the moral standing of the order... and will induce an accession of members, drawn from that most desirable class – young men... through the degrees of the

⁴³⁹ M. Canon, *The Land Boomers* (Melbourne, 1966); E.A. Boehm, *Prosperity and Depression in Australia, 1887-1897* (Oxford, 1971); G. Davison, *The Rise and Fall of Marvellous Melbourne* (Carlton, 1979); Belich, *Replenishing*, pp.356-359.

⁴⁴⁰ Kaufman, *For the Common Good?*, p.22.

⁴⁴¹ Carnes, *Secret Ritual*, pp.75-77; *Proceedings of the Grand Lodge of the IOOF of the State of Wisconsin, 62nd Annual Session, 1908* (Wisconsin, 1908), p.21.

⁴⁴² *The Friendly Society Record*, December 1871, p.1 (NLA.FER F6372a).

order'.⁴⁴³ Friendly society and fraternal halls were also important community spaces in 'frontier' regions, and allowed these organisations to become hubs of social and ceremonial activity. This will be discussed in more detail below.

Table 4.13: Meeting place of lodges of the Oddfellows in Australia and New Zealand in 1907.

| Meeting place type | Number | % of 797 lodges (29 with missing information) |
|---------------------------------------|---------------|--|
| Oddfellows Hall | 219 | 27.5 |
| Hotel | 68 | 8.5 |
| Public Hall | 64 | 8.0 |
| MUIOOF Hall | 50 | 6.3 |
| Masonic Hall | 46 | 5.8 |
| Private rooms | 42 | 5.3 |
| Friendly Societies Hall | 41 | 5.1 |
| Mechanics Institute | 41 | 5.1 |
| Pub/alehouse | 33 | 4.1 |
| Schoolrooms | 29 | 3.6 |
| Council Chambers/Town Hall | 23 | 2.9 |
| School of Arts | 17 | 2.1 |
| Temperance Hall | 15 | 1.9 |
| Foresters Hall | 12 | 1.5 |
| Lodge Rooms | 12 | 1.5 |
| Religious space | 11 | 1.4 |
| Athenaeum | 8 | 1.0 |
| Library | 8 | 1.0 |
| Dispensary Hall | 6 | 0.8 |
| Druids Hall | 4 | 0.5 |
| Rechabite Hall | 4 | 0.5 |
| Good Templars Hall | 3 | 0.4 |
| Miners Institute | 3 | 0.4 |
| Fire Brigade Buildings | 2 | 0.3 |
| Templars Hall | 2 | 0.3 |
| Chamber of Commerce | 1 | 0.1 |
| Grand United Order of Oddfellows Hall | 1 | 0.1 |
| Orange Order Hall | 1 | 0.1 |
| Private Rooms | 1 | 0.1 |
| School of Mines | 1 | 0.1 |

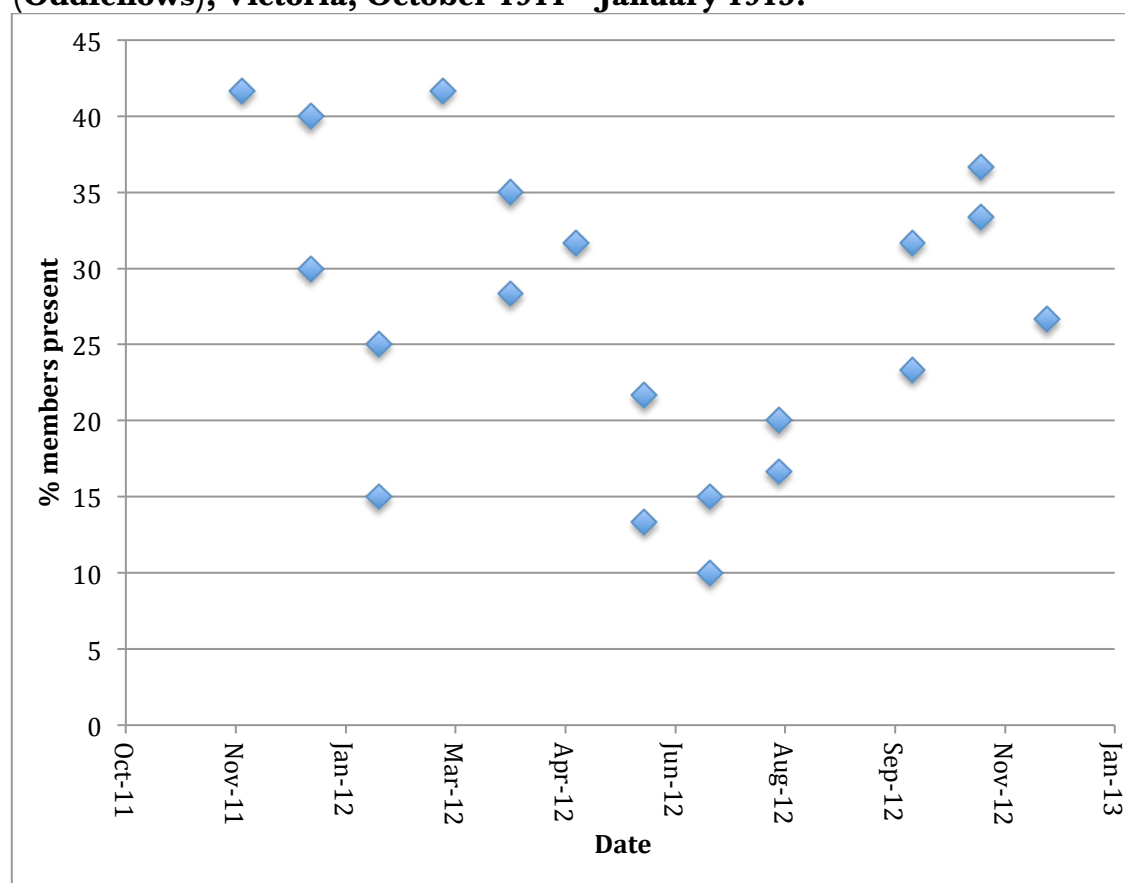
Source: A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity for 1907 (Manchester, 1907) (OOA).

The hypothesis that building a hall encouraged participation in the governance of a society is unverifiable. Unfortunately records on attendance are

⁴⁴³ Idem.

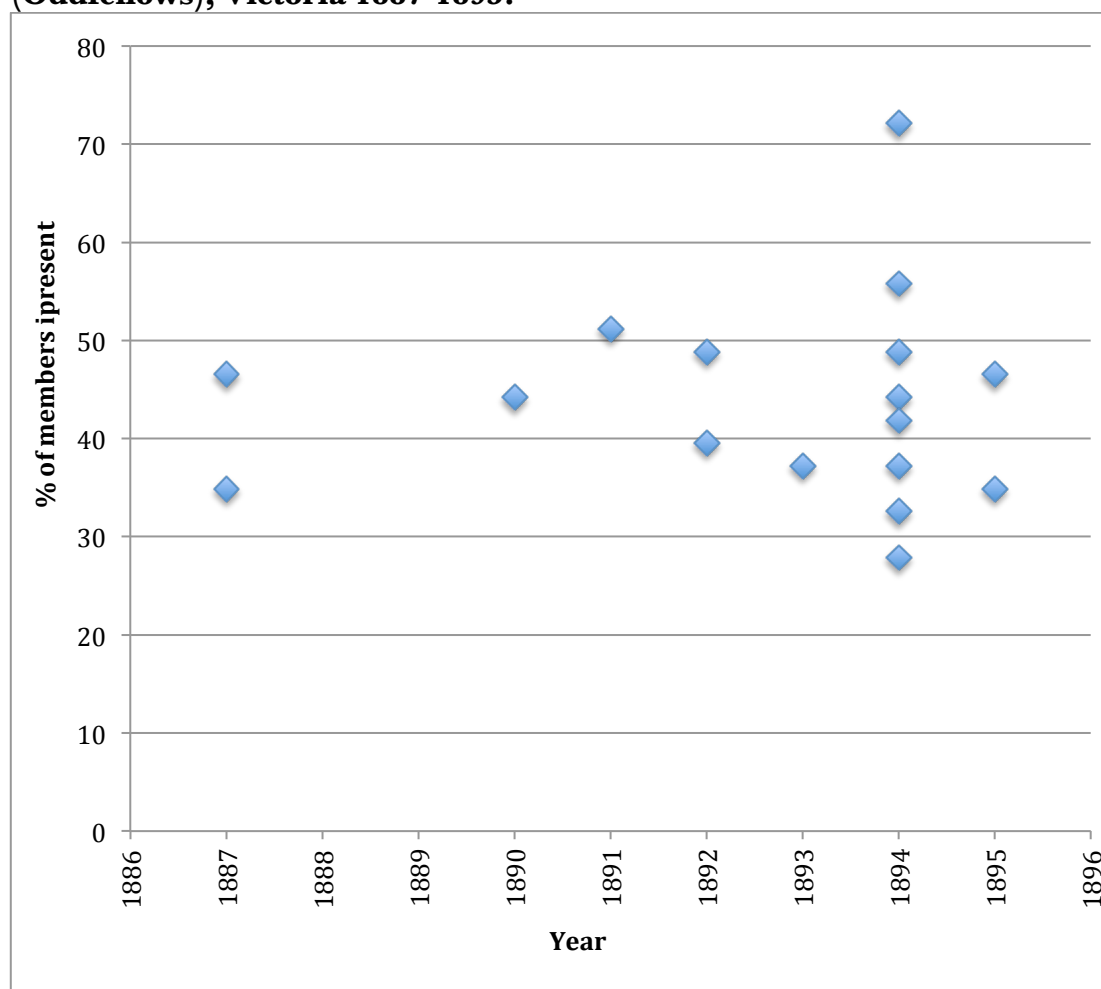
scarcer than in Britain. In the Noel Butlin archive I identified minute books for two Oddfellows lodges, the Myrtleford and Tarnagulla lodges in Victoria, which regularly recorded the number of members in attendance. Many of the other minute books only recorded the number of offices present. The selected minute books recorded attendance in a clear and unambiguous manner from 1887 to 1895 (Myrtleford) and 1911 to 1913 (Tarnagulla), meaning that both lodges were at a mature stage in their life cycle having been founded in 1861 and 1884. With such a small sample it is impossible to come to a firm conclusion, but it does appear that participation levels were higher than in Britain (see **figure 4.27 and 4.28**). In Myrtleford between 1911 and 1913 the *lowest* attendance figure was 10%, and more than a quarter of the lodge regularly turned out. In the Tarnagulla lodge between 30% and 60% of members attended regular lodge meetings between 1887 and 1895.

Figure 4.27: Attendance at the meetings of the Myrtleford lodge (Oddfellows), Victoria, October 1911 – January 1913.



Note: Ratio of members in attendance calculated using the number of members (60) listed in the 1907 Directory. *Source:* ‘Minute Book of the Myrtleford Lodge, 1911-1933’ (NBA.Z227. Box 3), and *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1907* (Manchester, 1907), p.234 (OOA).

Figure 4.28: Attendance at the meetings of the Tarnagulla lodge (Oddfellows), Victoria 1887-1895.



Note: Ratio of members in attendance calculated using the number of members (43) listed in the 1887 Directory. *Source:* ‘Minute Book of the Tarnagulla Lodge’ (NBA.Z262. Box 396), and *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1887* (Manchester, 1887), p.209 (OOA).

Records relating to lodge-level office holding are also less complete for Australia than Britain. I was able to locate sources relating to two lodges in the Noel Butlin archives that recorded the ascension of members of the Oddfellows through the ‘degrees’ of the order. In theory a member had to undertake a ‘degree’ ceremony to take up an official position.⁴⁴⁴ It seems reasonable to assume, therefore, that members taking a ‘degree’ were serving as an officer. In contrast with the British experience official positions were relatively open. In the Loyal Yarra Yarra lodge six of the eight members attaining the second highest degree standing, the gold degree, between 1880 and 1890 did so within a year of initiation.⁴⁴⁵ Overall 24 members obtained a degree, which was a high participation rate given that the lodge only had

⁴⁴⁴ Weinbren, *The Oddfellows*, p. 316-7.

⁴⁴⁵ ‘Degree Book for the Yarra Yarra Lodge’ (NBA.Z262, Box 207).

49 members in 1879.⁴⁴⁶ Between 1899 and 1906 the members of the Myrtleford lodge had to be more patient. Yet all of the 16 members who attained the gold degree did so within 5 years and for one member it took just six months.⁴⁴⁷ Overall 28 members obtained a degree between these dates, and the lodge only had 50 members in 1907.⁴⁴⁸ Degree ceremonies also featured prominently in district-level governance. District officials frequently travelled out to lodges to move members through the degrees of the order and to administer the relevant ‘lectures’. A staple feature of the annual reports of the Port Phillip District was a progress report on this activity, and in 1901 the Grand Master of the district wrote that ‘generally I look upon this as the most important part of the duties of a District officer’.⁴⁴⁹

The fact that district and lodge officials were conducting degree ceremonies at the end of the nineteenth century suggests that rituals were important in Australia and that the decline of ritual practices was more delayed than in Britain. There is anecdotal evidence to support this view. In 1868 the Australian Independent Order of Oddfellows, composed of lodges that had seceded from the British Oddfellows in the 1840s, formally joined the American Oddfellows.⁴⁵⁰ This was partly motivated by a desire to adopt the more elaborate rituals that typified American Oddfellowship. The original letter to the Californian Oddfellows from a group of six Victorian lodges asked ‘for information and instruction [on the American rituals], and to obtain a stock of such supplies as were in use by the order in America.’⁴⁵¹ Following the ratification of the union a Californian official travelled across the Pacific and spent much of his trip ‘instructing them [the new lodges] in the rituals... according to ‘the American plan’.⁴⁵² Those lodges that remained loyal to Britain were undoubtedly less enamoured with ritualism than the Australian wing of the American Oddfellows, but there is evidence that even these Australasian lodges took rituals more seriously.

⁴⁴⁶ *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1879* (Manchester, 1879), p.239 (OOA).

⁴⁴⁷ ‘Degree Book for The Myrtleford Lodge’ (NBA.Z227, Box 5).

⁴⁴⁸ *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity, for 1907* (Manchester, 1907), p.234 (OOA).

⁴⁴⁹ *Proceedings of the Grand Annual Committee of the Port Phillip District, 4th December 1901*, p.8 (NBA.Z262, Box 37).

⁴⁵⁰ H.L. Stillson, (ed.), *The Official History and Literature of Odd Fellowship, The Three Link Fraternity* (Boston, 1898), p.130; G.H. Tinkham, *The Half Century of California Odd Fellowship* (Stockton, 1906), pp.114-5; Blainey, *Odd Fellows*, pp.10–31.

⁴⁵¹ Stillson, *The Official History*, p.125.

⁴⁵² *Ibid.*, p.153.

In the annual and quarterly reports of the Oddfellows there are a number of instances of New Zealand and Australian districts complaining that they had not been sent information on rituals and passwords. In 1878 the Wellington district wrote to the AMC that ‘in order to rationalise and standardise the initiation ceremony... it has been suggested that a competent Past Officer should visit the Colonies for the purpose of instructing the several districts in the proper manner of giving the various signs and Degrees in connected with the order’.⁴⁵³ Like a spurned child the district complained that ‘not since the order was established in 1843 have we been visited, nor have any come amongst us who were able to instruct us, and consequently some discrepancies have crept into our present system’.⁴⁵⁴

The arcane and masonic style rituals that typified the early friendly society movement had been abandoned by the time the affiliated orders first arrived in Australasia, but ritual practices were more resilient than in Britain. In a detailed study of New Zealand friendly societies Jennifer Carlyon has argued that the rituals changed very little in New Zealand from the 1840s to the 1920s.⁴⁵⁵ The meeting of the Stawell district of the Oddfellows in 1894 closed with a photograph of the attendees and it is notable that many of the members were wearing aprons (see **figure 4.29**). In Britain it is hard to be precise, but the images reproduced by Weinbren in his study of the Oddfellows show that whilst regalia was still in use, the more plain style sash had become normal attire for members by the end of the nineteenth century.⁴⁵⁶ The Grand United Order of Oddfellows still blindfolded candidates for the initiation ceremony in 1873.⁴⁵⁷ It was not until 1897 that the Oddfellows in NSW announced that ‘it is now optional with the lodges whether there shall be a procession on the death of a member (Vide Funeral Rule, no.17).⁴⁵⁸ Compulsory attendance at funerals had long since been dropped in Britain. As late as 1907 the lodges of Sydney turned out in full regalia to commemorate the death of a

⁴⁵³ *Independent Order of Oddfellows, Manchester Unity, Grand Annual Moveable Committee, 3rd-7th June 1879*, p.38 (OOA).

⁴⁵⁴ *Idem*.

⁴⁵⁵ Carlyon, ‘New Zealand Friendly Societies’, p.106.

⁴⁵⁶ Weinbren, *The Oddfellows*, pp.94-95, 97, 133.

⁴⁵⁷ Green and Cromwell, *Mutual Aid*, p.16.

⁴⁵⁸ *Report of the Quarterly Committee of the NSW MUIOOF, March 1897* (Sydney, 1897), p.15 (ML.334/706.2).

past Grand Master.⁴⁵⁹ The Port Phillip District of Victoria conducted a similar ceremony on the death of one of its past Grand Masters in 1901.⁴⁶⁰

Figure 4.29: Deputies at the Victoria district AMC of the Oddfellows, Stawell – 1894.



Source: *Report of the Proceedings of the annual meeting of the Stawell District the MUIOOF, 1st-3rd June, 1894* (Melbourne, 1894) (NBA.Z262 Item 327).

Rituals were important mechanism for creating and cementing in-group ties.⁴⁶¹ The 1897 rules of the Oddfellows in Victoria stipulated that members should wear some combination of sashes, collars, aprons and medals for all ceremonies.⁴⁶² Such costumes helped foster a sense of group identity.⁴⁶³ This was made explicit later in the same rulebook with the instruction for funerals that ‘the members shall form accordingly to their rank in the order, walking two and two, *linked by the little finger*, juniors going before, guarded in front by the lodge guardian’.⁴⁶⁴ This funeral ritual emphasised bonding, hierarchy and the boundary between the group and those outside. In all these examples a lodge identity was forged through ‘othering’, and hence the importance of secrecy.⁴⁶⁵ The New Zealand branch of the Independent Order of Oddfellows went to extraordinary lengths to keep rituals secret. In 1882 one Deputy Grand Master had to travel all the way to Melbourne to learn the secret passwords and handshakes because the order would not write these down.⁴⁶⁶ Secrecy preserved the value of membership and ensured that lodges could be sure that

⁴⁵⁹ *Report of the Quarterly Meeting of the Sydney District of the MUIOOF, 15th April 1908* (Sydney, 1908), p.5 (ML.334/706.2).

⁴⁶⁰ *Idem*.

⁴⁶¹ Cordery, *British Friendly Societies*, p.33; Gorsky, ‘Mutual Aid’, pp.320–321.

⁴⁶² *Rules of the MUIOOF in Victoria* (Melbourne, 1897), p.23.

⁴⁶³ Cordery, *British Friendly Societies*, p.31.

⁴⁶⁴ *Rules of the MUIOOF in Victoria* (Melbourne, 1897), p.80.

⁴⁶⁵ Weinbren, *The Oddfellows*, p.83.

⁴⁶⁶ Carlyon, ‘New Zealand Friendly Societies’, p.108.

travelling individuals were actually members. In 1893 the initiation ceremony of the United Order of Druids still contained Masonic hallmarks; the candidate would knock on the lodge door and the lodge Grand would answer ‘a stranger is without who desires to become a member of our lodge and the order’. Following a ritual inside the lodge the candidate would emerge as a brother.⁴⁶⁷ Crucial to the transition from being a stranger without to being a brother within was being versed in the ‘secrets of the order’.⁴⁶⁸ The ceremony also emphasised that the diffusion of these secrets would harm the order, and thus the new candidate was made to feel a sense of responsibility.⁴⁶⁹ In the initiation ceremony of the Grand United Order of Oddfellows the candidate was warned that ‘whoever enters this order for the mean and selfish object of paying his contributions and receiving its pecuniary benefits, without... aiding in the arduous labours of conducting the business of his lodge, is to be regarded as an unworthy intruder.’⁴⁷⁰

It is particularly striking that in Australia the centralised and collecting societies with no branches, rituals, regalia and regular meetings were very unsuccessful. In South Australia the Cosmopolitan Benefit Society (CBS) was founded in 1879, modelled on the British Hearts of Oak Friendly Society. Yet whereas the latter had 32,000 members in 1908 the Australian CBS had just 652 members.⁴⁷¹ In New Zealand the affiliated societies were even more dominant, as is evident in the Registrar’s annual list of registered societies.⁴⁷²

As in Britain the decline in traditional forms of friendly society sociability was part of a deeper transformation in people’s attitudes towards leisure time, and a shift away from regular participation in local branches to more commercialised and open activities, such as attending music halls and sporting events.⁴⁷³ There is some evidence that friendly society sociability gravitated towards more coordinated, pre-planned, public and respectable events. In Australia and New Zealand sports days, fetes and picnics became more popular towards the end of the nineteenth century. In Victoria

⁴⁶⁷ *Ritual of the South Australian United Ancient Order of Druids, 1893*, p.8 (NLA.N336.099423).

⁴⁶⁸ *Ibid*, p.9.

⁴⁶⁹ *Idem*.

⁴⁷⁰ Green and Cromwell, *Mutual Aid*, p.35.

⁴⁷¹ *Ibid.*, pp.36-7.

⁴⁷² See *Friendly Societies: Report of the Registrar for the Year 1905*, in AJHR, Session I, section H-1, (1906), pp.9-13, Appendix II for example.

⁴⁷³ Cordery, *British Friendly Societies*, p.137; Blainey, *A History*, pp.78-84.

in 1895 the United Friendly Societies Association held a Sports Day. There were bicycle races, field games and cricket. The event had elite and commercial support; the premier Lord Hample attended and beer and drugs companies were among the sponsors.⁴⁷⁴ Across the Tasman the Liberal Premier, Richard Seddon, attended a picnic organised by the Auckland Oddfellows in 1905.⁴⁷⁵ Events like this were more palatable to elites than the booze-soaked, boisterous conviviality of the traditional lodge night. In Queensland Friendly Society Day was a public holiday and in 1918 the societies of Toowoomba organised a procession through the town that was enthusiastically attended by the towns folk.⁴⁷⁶

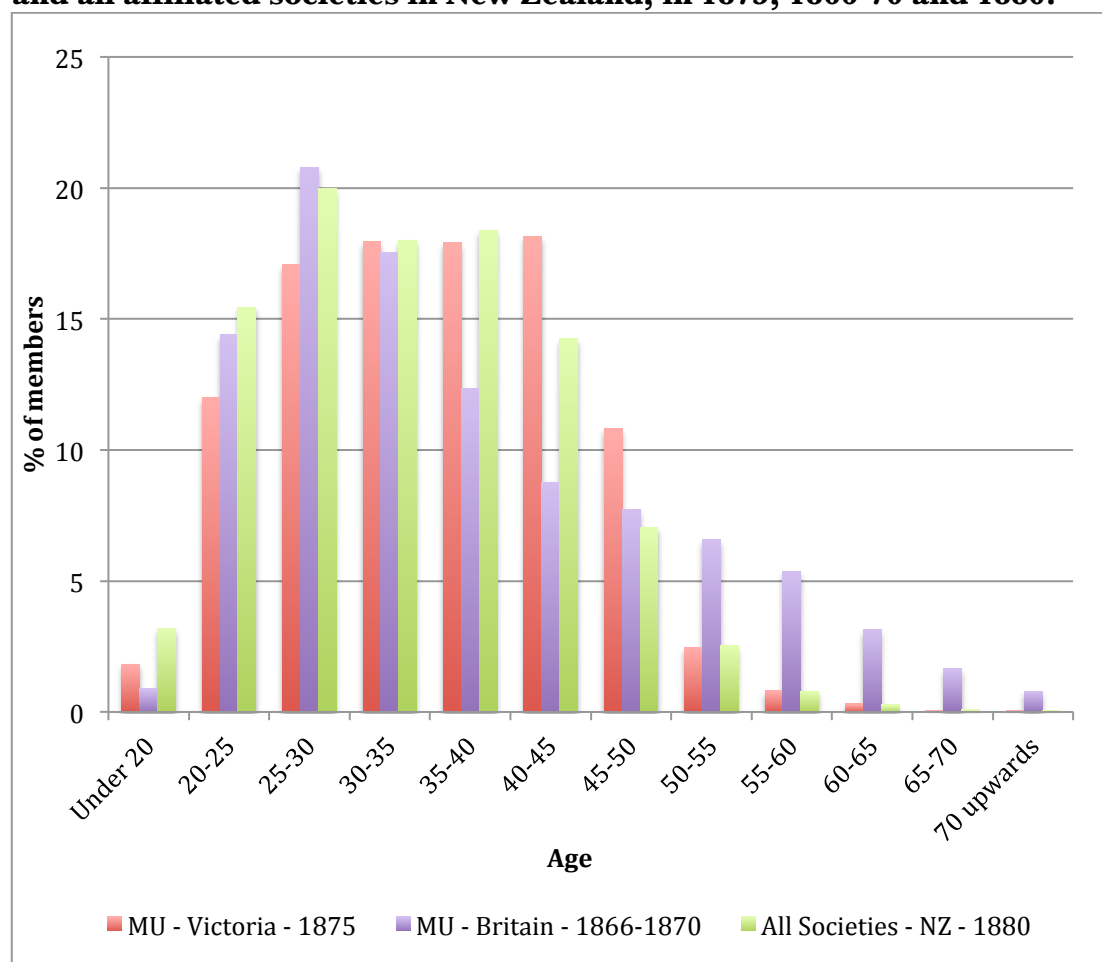
The different social and cultural character of the affiliated friendly societies in Australasia and Britain was partly a consequence of the relative youth of the movement in the Antipodes. Australasian branches were established later in the period and so by the turn of the century they were at an earlier phase in their 'life cycle'. Establishing a branch of an affiliated society took time and effort; it is possible that Australasian branches of the Oddfellows met more frequently in 1907 simply because the founding generations of members were still actively invested in the society. The youth of a branch may have been associated with a greater sense of pride its governance. Over time the struggles of the early years would have been gradually forgotten, as members joined with no institutional memory. It may have been these individuals that officials castigated for merely turning up to pay in contributions or claim benefits.

⁴⁷⁴ *United Friendly Societies Demonstration, Official Sports Program, Saturday 28th 1895*, p.46 (ML.Davis Sporting Collection, Box 32, Item 8).

⁴⁷⁵ Carlyon, 'New Zealand Friendly Societies', pp.63-64.

⁴⁷⁶ Green and Cromwell, *Mutual Aid*, pp.29-30

Figure 4.30: Age structure of Oddfellows (MU) in Victoria and Britain, and all affiliated societies in New Zealand, in 1875, 1866-70 and 1880.



Sources: *The Statistical Register for the colony of Victoria*, 1875, pp.60-72 (ML.Q319 2/V); *Friendly Societies: Report of the Registrar for New Zealand for the year 1880*, in AJHR, Session I, section H-7, (1881) pp.46-50; Ratcliffe, *Independent Order of Oddfellows*, pp.12-13.

Not only were Australasian branches younger than British branches, it also seems that friendly society members tended to be younger in Australasia. **Figure 4.30** shows that members of affiliated friendly societies in New Zealand in 1880 and the Oddfellows in Victoria in 1875 were significantly younger than members of the British Oddfellows in 1866. In New Zealand the relative youth of the movement persisted through to the outbreak of the First World War. The reports of the Registrar of New Zealand are particularly detailed. Between 1909 and 1914 they recorded the average age of the members of branches undertaking valuations. This sample of 482 branches of the Oddfellows and the Foresters can be compared with a sample of 200 courts of the Foresters operating in England between 1909 and

1913.⁴⁷⁷ Pooling all years the English courts had a mean average age of 41.61 whereas in New Zealand the same figure was just 35.47 years.⁴⁷⁸

Younger members were far less likely to claim sickness benefits than older members, and may have placed more weight on the ‘social’ benefits of participation. In 1872 the Grand Master of the Coleraine district of the Oddfellows defended regalia from its critics for making ‘the initiations pleasing and grand’, and because ‘it has been one of the main inducements which entices young people to join’.⁴⁷⁹ As discussed, ritual practices and regalia were an important mechanism for building ties between members. Given that younger members were more likely to be single and immigrants, they may have been more reliant on the ‘fictive kinship’ networks that built up around branches.⁴⁸⁰ Information on the marital status of members is rare but it is clear that in Australasia a much larger proportion of members were single than in Britain. The first valuation of the British Oddfellows recorded the number of single and married members in each lodge. Between 1882 and 1884 the New Zealand Registrar recorded the same information for every registered branch. **Figure 4.31** shows a striking divergence. In Britain just over 30% of members were single in 1872. In New Zealand this figure was much higher across the period, hovering between 37% and 39% (see **figure 4.32**). This was not just an aggregate difference; the distribution in New Zealand was more skewed with fatter tails. In New Zealand 25% of branches had more single members than married ones as opposed to 6.8% in the British Oddfellows. Comparable sources are unavailable for Australasia, however in the sample of five membership registers of Oddfellows lodges in Victoria discussed in chapter two 43.3% of members were single.⁴⁸¹

⁴⁷⁷ See chapter 5 for a full discussion of this data.

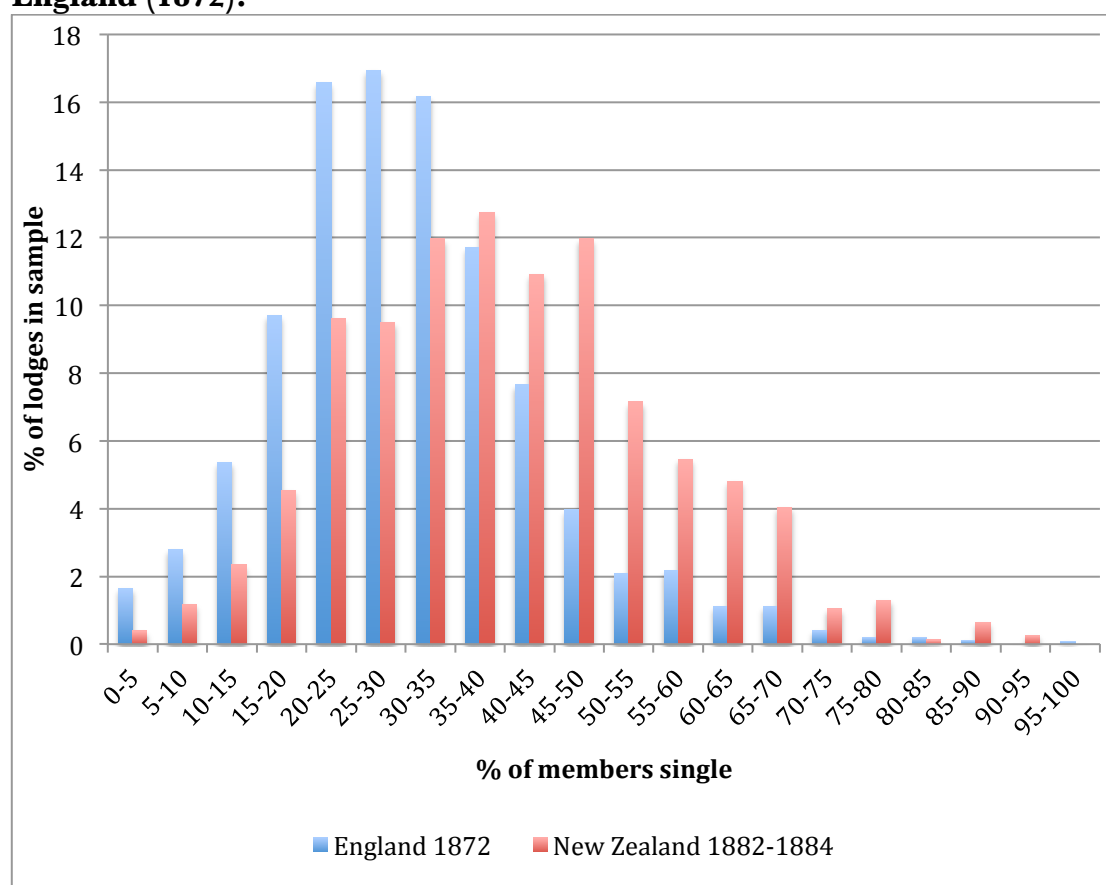
⁴⁷⁸ T-test statistic of 15.24, significant at the 1% level.

⁴⁷⁹ *The Friendly Society Record*, July 1872, p.59 (NLA.FER F6372a).

⁴⁸⁰ Gorsky, ‘The growth’, p.507.

⁴⁸¹ See footnote 259 page 101.

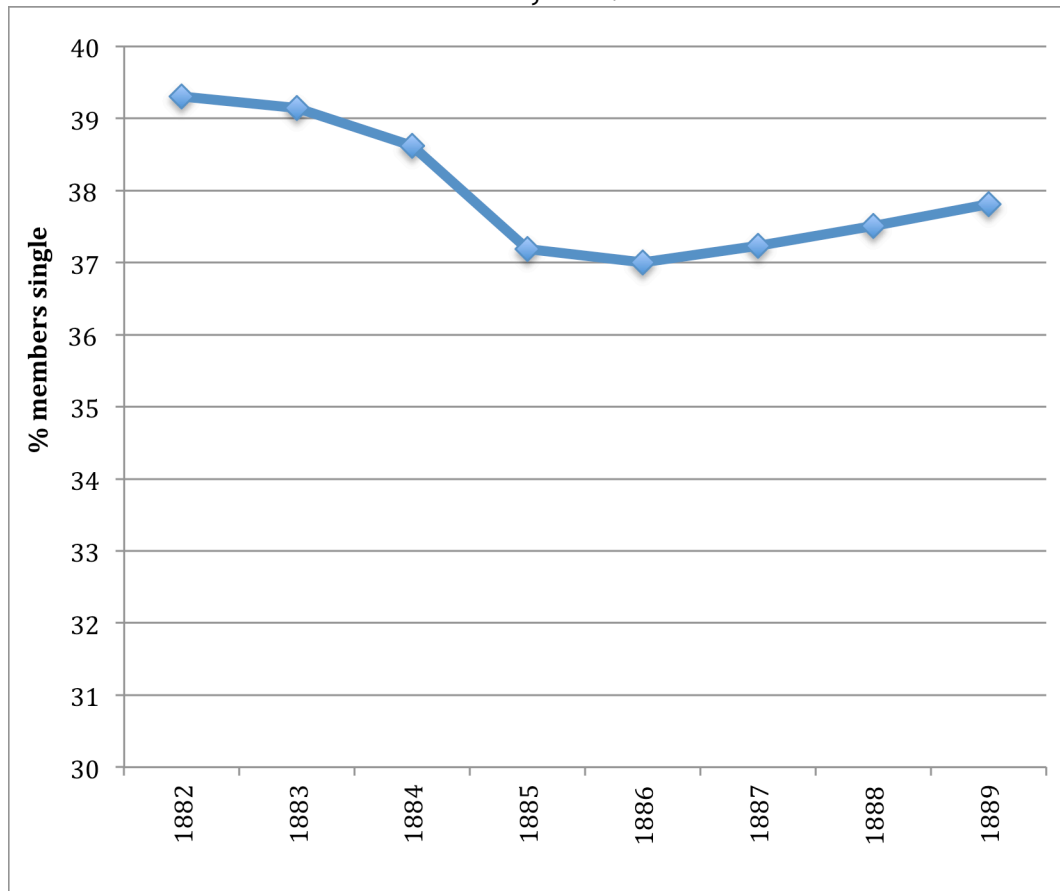
Figure 4.31: Single individuals as proportion of members of branches of affiliated societies in New Zealand (1882-1884), and the Oddfellows in England (1872).



Note: Sample of 2450 English lodges, and 841 branches in New Zealand. *Sources:* *Friendly Societies: Report of the Registrar for New Zealand*, in reports for the years 1883, pp.17-22; 1884, pp.16-20; 1885, pp.17-22; *MUQR*, 1st July 1872, pp.18-33; *MUQR*, 1st February 1873, pp.10-81.

A youthful membership base also meant that Australasian societies were under less economic pressure than in Britain. One of the main forces behind commercialisation and bureaucratisation in Britain was the necessity of actuarial reform (see chapter 1). In Australasia the pressure was less severe. Not only because the members were younger, but also because age specific morbidity rates were lower. Between 1886-1897 members of affiliated societies in New Zealand were less morbid in every age cohort than members of the Oddfellows in England between 1893-1897 (see **figure 4.33**). It is difficult to say whether it was a consequence of improved biological living standards or the higher opportunity cost of sickness given the higher wages available in the Antipodes, but the trend held over the period. In 1908 the average member of the Foresters in England experienced 16.64 days sickness per annum. The comparable figure in the New Zealand Foresters was just 11.34 days.

Figure 4.32: Single individuals as a proportion of members of affiliated societies in New Zealand, 1882-1889.

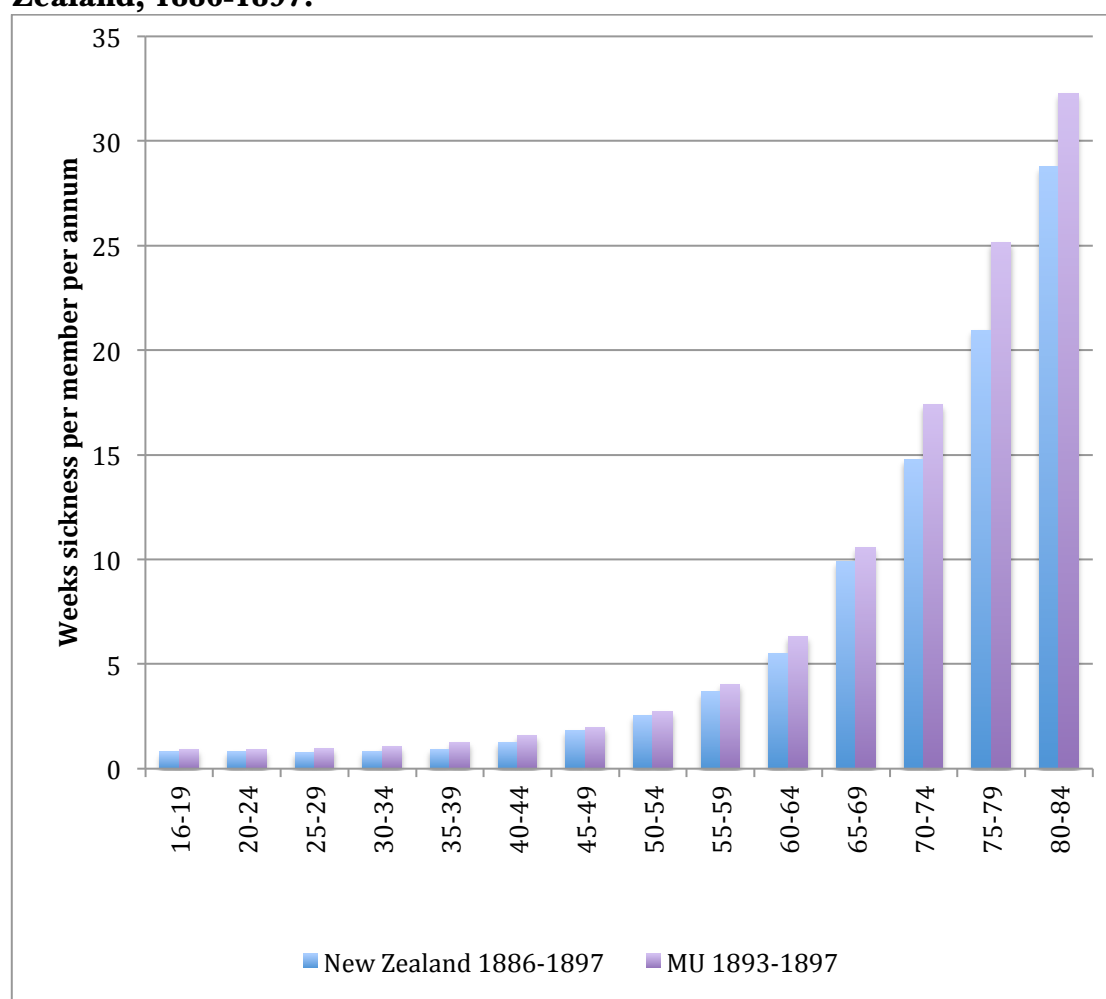


Sources: *Friendly Societies: Report of the Registrar for New Zealand*, in reports for the years 1882-1891.

Lower morbidity rates contributed to better valuation outcomes. Comparing the English branches of the Foresters in the 1881-1886 and the branches of the Oddfellows and the Foresters in New Zealand conducting valuations between 1909 and 1912 is illustrative – branches were around 20 years younger in case of the latter, meaning these societies were roughly at the same stage in their life cycle. In the English subsample the average current ratio was 85.34% (see chapter 1 for discussion of this concept and the underlying methodology) whereas in New Zealand the average branch was in surplus, with a current ratio of 101.64%.⁴⁸²

⁴⁸² Difference significant at the 1% level (T test statistic, 11.69).

Figure 4.33: Age specific morbidity experience of members of the Oddfellows (MU) in England, 1893-1897, and affiliated societies in New Zealand, 1886-1897.



Source: *Friendly Societies: Report of the Registrar for the Year 1903*, in AJHR, Session I, section H-1 (1904), p.9.

In summary there was an endogenous logic to the divergence of the British and the Australasian friendly societies. The youth of branches, the higher proportion of single and young members, lower morbidity rates and a greater degree of financial security all contributed to making the Australasian friendly societies more important social spaces than in Britain. External forces also played an important role. Like the US, Australia and New Zealand were ‘settler societies’, experiencing high rates of population growth, migration and the expansion of settlements across large geographical spaces. Under these conditions friendly societies filled an important social and civic role in many towns and villages across Australasia. One group of Australasian officials saw cultivating what today sociologists would term ‘social capital’ as integral to the friendly society mission: In 1878 the Quarterly Board of the Victoria district of the Oddfellows claimed of the spread of lodges that ‘the good it

affects is not only perceptible by the pecuniary benefits derived, but it established a bond of friendship and brotherhood, binding men together by an indissoluble tie, and causing them to work harmoniously for the public weal'.⁴⁸³

Participation in a friendly society gave migratory individuals access to a new social network, easing the integration and acculturation process.⁴⁸⁴ In the five Oddfellows lodges in Victoria for which I have compiled information on members admitted between 1858 and 1920, 64.4% of the 2376 entries listed the last place of residence. Of these individuals 14.4% recorded Britain as their last location.⁴⁸⁵ This is probably an underestimate of the number of international migrants joining these lodges given that many would move in a step-wise pattern, temporarily residing in one location in Australia after disembarking, before moving on.⁴⁸⁶ The relationship between migration and voluntary associations has generated a large literature in a number of disciplines.⁴⁸⁷ Discussion has tended to revolve around the role clubs and societies play in immigrant assimilation and identity formation.⁴⁸⁸ It was also the case

⁴⁸³ *MUIOOF of Victoria, Report of the Quarterly Board Meeting, 12th-15th March 1878* (Melbourne, 1878), p.15 (NBA.Z262, Box 373).

⁴⁸⁴ For analogous organisations see K. Buckley, 'Emigration and the Engineers, 1851-87', *Labour History*, 15, (Nov. 1968), p.32; P. Horn, 'Agricultural Trade Unionism and Emigration, 1872-1881', *The Historical Journal*, 15, 1, (1972), pp.87-102; D.M. MacRalid, 'Networks, Communication and the Irish Protestant Diaspora in Northern England, c.1860-1914', *Immigrants & Minorities*, 23, no.2-3, (2005), p.321; E. Delaney and D.M. MacRalid, 'Irish Migration, Networks and Ethnic Identities Since 1750: An Introduction', *Immigrants & Minorities* 23, no.2-3, (2005), pp.129-133.

⁴⁸⁵ See footnote 259 page 101.

⁴⁸⁶ D.M. MacRalid, 'The Associationalism of the Orange Diaspora', in D.A Wilson, (ed.), *The Orange Order in Canada* (Dublin, 2007), p.29.

⁴⁸⁷ M. Freedman, 'Immigrants and Associations: Chinese in Nineteenth-Century Singapore' *Comparative Studies in Societies and History*, 3, 1, (1960), pp.25-48; E.E. Schmitter, 'Immigrants and Associations: Their Role in the Socio-Political Process of Immigrant Worker Integration in West Germany and Switzerland', *International Migration Review*, 14, 2, (1980), pp.179-192; U. Schoenberg, 'Participation in Ethnic Associations: The Case of Immigrants in West Germany', *International Migration Review*, 19, 3, (1985), pp.416-437; T.Y. Owusu, 'The Role of Ghanaian Immigrant Associations in Toronto, Canada', *International Migration Review*, 34, 4, (2000), pp.1155-1181; J. Moya, 'Immigrants and Associations: A Global and Historical Perspective', *Journal of Ethnic and Migration Studies*, 31, 5, (2005), pp.833-864.

⁴⁸⁸ In the historical literature see J.W. Briggs, *An Italian Passage: Immigrants to three American cities, 1890-1930* (New Haven, 1978), chapter 2; G. R Mormino and G.E. Pozzetta, *Their Immigrant World of Ybor City: Italians and Their Latin Neighbours in Tampa, 1885-1985* (Urbana, 1987), pp.175-177; J. Bodnar, 'Ethnic Fraternal Benefit Associations: Their Historical Development, Character, and Significance', in S.H. Shreve and R.J Vecoli (eds.), *Records of Ethnic Fraternal Benefit Associations in the United States: Essays and Inventories* (St. Paul, Minnesota, 1981), pp.5-6; J. Harland-Jacobs, *Builders of Empire: Freemasons and British imperialism, 1717-1927* (Chapel Hill, 2007); T. Bueltmann and D.M. MacRalid, 'Globalizing St George: English Associations in the Anglo-World to the 1930s', *Journal of Global History*, 7, 1, (2012), pp.79-105; Magee and Thompson, *Empire and Globalisation*, p.136; J. Harland-Jacobs, "'Hands across the sea": the masonic network, British imperialism and the North Atlantic world', *Geographical Review*, 89, 2, (1999), pp.237-253; J. Harland-Jacobs, 'Worlds of brothers', *Journal for Research into Freemasonry and Fraternalism*, 2, 1, (2011), pp.10-37.

that migration fragmented traditional social support mechanisms, forcing newcomers to turn to voluntary associations like friendly societies for mutual aid.⁴⁸⁹ High rates of immigration amplified the social importance of friendly societies in ‘settler’ regions, as was the case in the American west.⁴⁹⁰ In regions where a large number of early settlers were young, single men without families or relatives, the lodge room became a haven from the ‘calamities’ of the world and a place to assemble ‘to promote the social happiness of our brethren’, in the words of a Foresters rule-book from Auckland in 1885.⁴⁹¹ This was an example of what the sociologist Mark Granovetter has termed ‘the strength of weak ties’.⁴⁹²

Most of the affiliated societies operated clearance schemes that allowed individuals to transfer their membership from one branch to another. This was also the case in many fraternal associations in the US.⁴⁹³ In the Oddfellows the member’s old branch issued him with a clearance certificate, which he ‘threw in’ to the new branch.⁴⁹⁴ The traveller was embedded in the psyche of the order. An Oddfellows songbook of 1823, reprinted in 1866 contain the lyrics to the ‘Song of the Wanderer’ which began:

I’ve wandered far on foreign sands,
Where fate has bade me roam;
And oft tho’ stranger in strange lands,
I’ve found a welcome home.
A friendly Brotherhood I’ve met,
Co-mingling age and youth;
And never can I e’er forget,
Their Friendship, Love and Truth.⁴⁹⁵

⁴⁸⁹ Moya, ‘Immigrants and Associations’, pp.833-864.

⁴⁹⁰ For a similar approach see Renfree, ‘Migrants and Cultural Transference’, pp. 64, 149; Carlyon, ‘Friendly societies in New Zealand’, pp.54-61; in the case of the US see D.J. Burnham, ‘Roslyn’s Mutual Aid Lodges; between Assimilation and Cultural Continuity, 1887-1940’, *Journal of the West*, 36, 4, (1997), pp.12-19; D.H. Doyle, ‘The Social Function of Voluntary Associations in a Nineteenth Century American Town’, *Social Science History*, 1, 3, (1977), pp.333-355.

⁴⁹¹ Carlyon, ‘Friendly societies in New Zealand’, p.61.

⁴⁹² M. Granovetter ‘The Strength of Weak Ties: A Network Theory Revisited’, *Sociological Theory*, 1, (1983), pp.201-233; M. Granovetter, *Getting a Job: A Study of Contacts and Careers* (Cambridge, Mass., 1974).

⁴⁹³ Donaldson, *The Odd-fellows*, pp.217-219; *Digest of the Constitution, Laws and Decisions of the Ancient Order of Workmen* (Buffalo, 1879), pp.113-4; C.H. Litchman (ed.), *Official History of the Improved Order of Red Men* (Boston, 1893), p.483; this was the case in the British Freemasons as well, see R. Burt, “‘Hedging’ the Gold Rush: Fraternity on the Mining Frontier: California, Nevada and Victoria, Australia 1860-1880”, Unpublished Working Paper, p.9.

⁴⁹⁴ Green and Cromwell, *Mutual Aid*, p.43.

⁴⁹⁵ Weinbren, *The Oddfellows*, p.69.

This was not idle talk. In 1877 the Loyal Antipodean Lodge of the Oddfellows in Wellington received one Brother Richards from England. Richards fell ill with consumption, but members of the lodge duly supported both him and his family. When Richards died the lodge paid for his funeral. Richards' original lodge eventually reimbursed all costs.⁴⁹⁶ International clearances were common by the mid-century.⁴⁹⁷ In 1852 a large number of members arrived in Victoria in search of gold.⁴⁹⁸ International movements were sufficiently important that the MUIOOF set up reciprocal travelling rights with the American IOOF in 1850 and a separate Canadian Order of Oddfellows in 1853.⁴⁹⁹ Clearances were less important than initiations in recruiting new members but still represented a significant stream of people. The percentage of all new members joining branches of affiliated societies in Victoria by clearance hovered around 10-15% between 1878 and 1900. In 1882 and 1883 38% and 25% of new members joined by clearance.⁵⁰⁰

As argued in chapter 2, friendly societies functioned because of a high degree of trust between members. The clearance system was particularly vulnerable to abuse.⁵⁰¹ Sociable activities were also essential to building up strong ties between members, and high admission and clearance rates made these practices all the more important. Penelope Ismay has persuasively demonstrated that the culture of 'Oddfellowship' emerged, in part, as a way of uniting lodges operating in the North West in the early nineteenth century. Standardised rituals also encouraged a sense of commonality amongst members. This was critical if the travelling benefits system was to work effectively; it was essential that lodges saw travelling members as 'brothers', both trustworthy and deserving of assistance.⁵⁰² Ismay's argument can be extended to Australasia in the later nineteenth century. In contrast to Britain, the movement was still growing at a rapid rate with much higher rates of initiation and clearances. **Figures 4.34** and **4.35** are based on the experience of the Oddfellows and the Foresters in Britain and a number of affiliated societies in Australasia. Figures for

⁴⁹⁶ Carlyon, 'New Zealand Friendly Societies', pp.38, 137.

⁴⁹⁷ MUIOOF, *Sydney District, Quarterly Report, October 1856*, (Sydney, 1856), p.8 (ML.334/706.2).

⁴⁹⁸ MUIOOF in *Victoria, Report of the Quarterly Board Meeting, 14th-16th March 1882* (Melbourne, 1882), p.11 (NBA.Z262, Box 373).

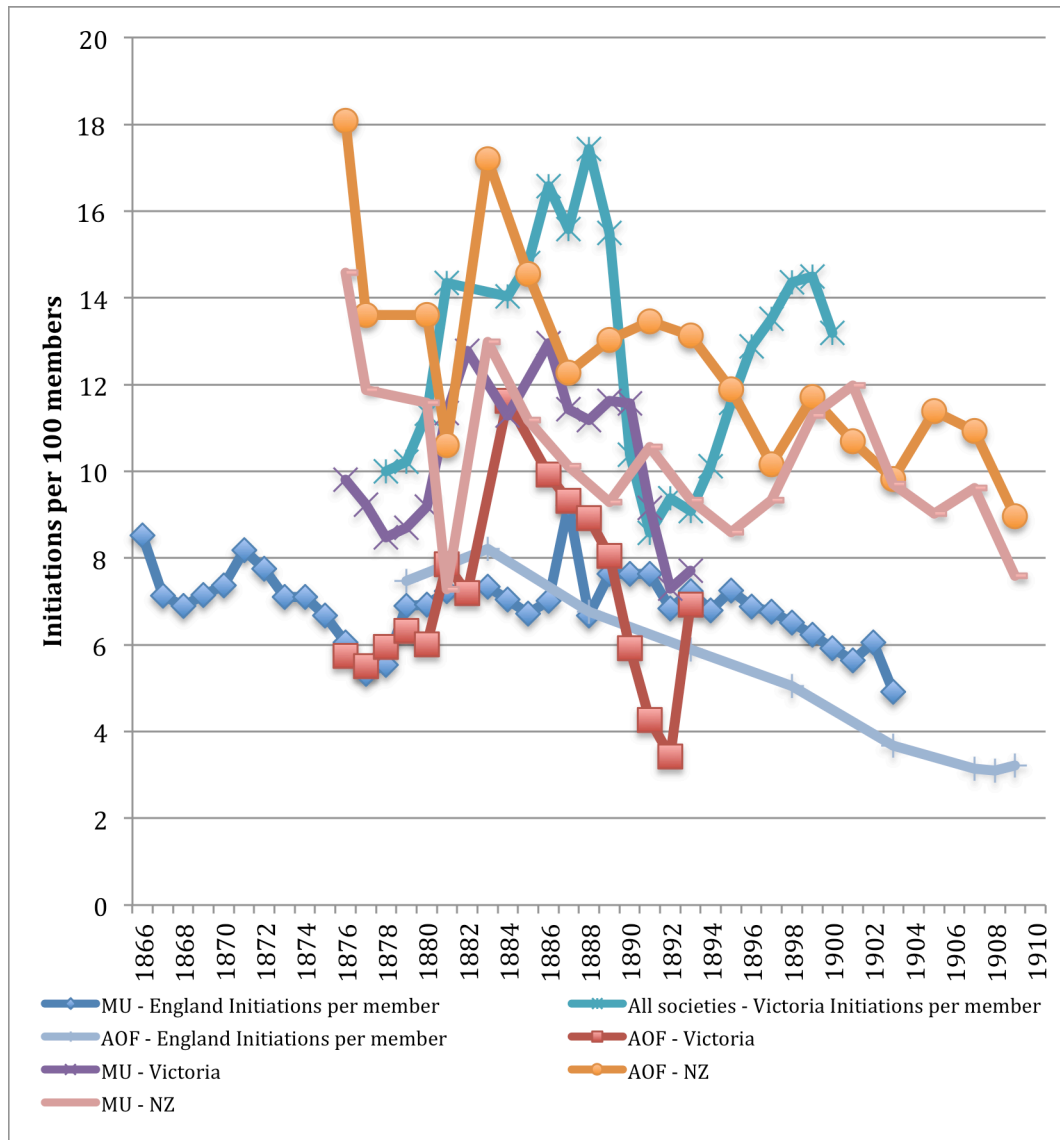
⁴⁹⁹ Weinbren, *The Oddfellows*, p.70.

⁵⁰⁰ *The Statistical Registrar for the colony of Victoria for the year 1900*, pp.681-3 (ML.Q319 2/V).

⁵⁰¹ Themes I have explored in Downing, 'The Friendly Planet', pp.401-410.

⁵⁰² Ismay, 'Trust Among Strangers', pp.1, 76-105.

Figure 4.34: Initiations per 100 members, England and Australasia 1866-1910.

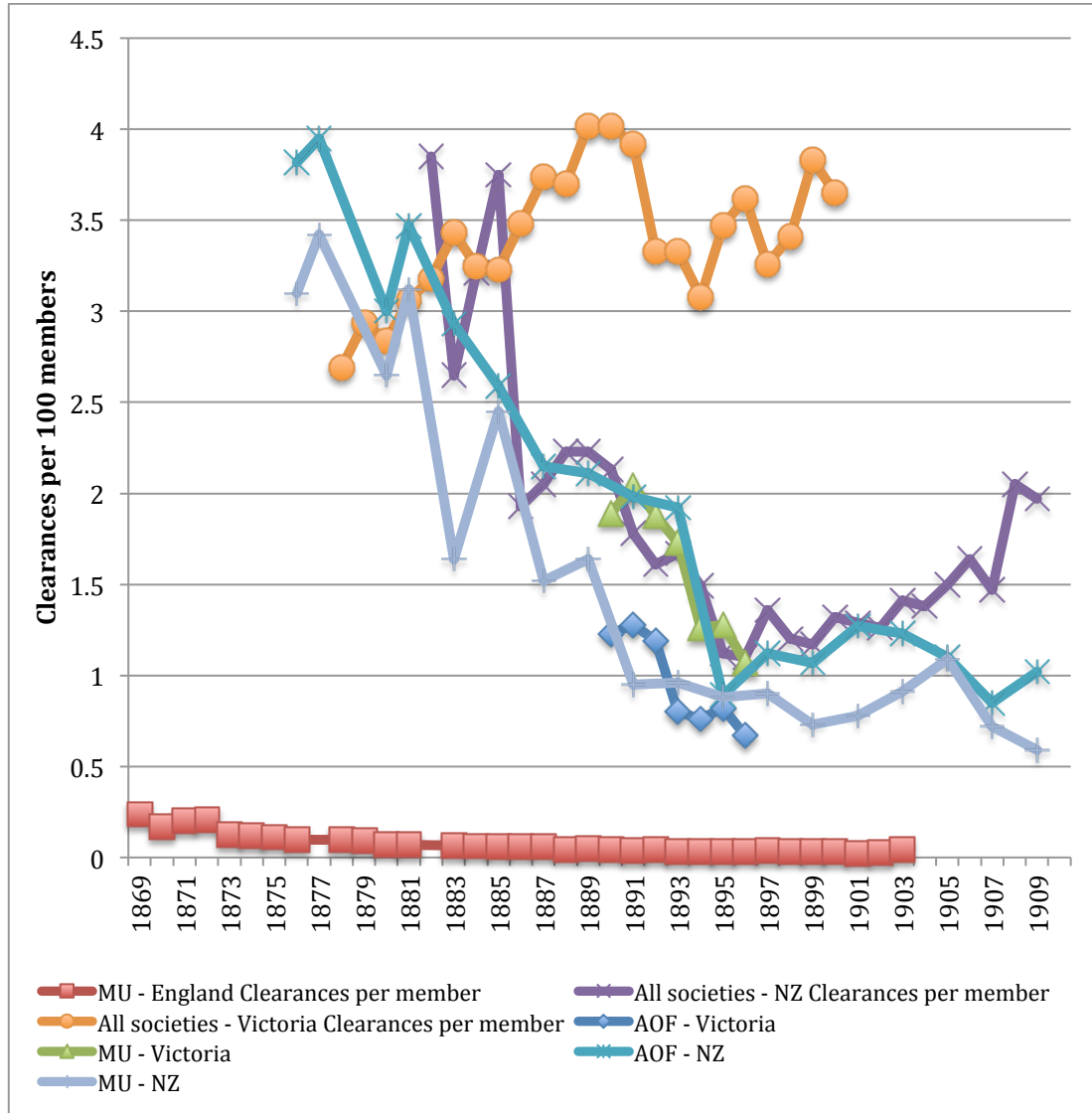


Note: MU = Oddfellows, AOF = Foresters. Source: Available editions of *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity*, between 1877-1910, see footnote 39 page 8; Editions of the *Directory of the Ancient Order of Foresters Friendly Society*, 1877-1908; Editions of *Friendly Societies: Report of the Registrar for New Zealand* for the years 1877-1910; successive volumes of ‘Statistics of Friendly Societies’, in *The Statistical Register for the colony of Victoria* (ML.Q319 2/V), 1877-1900; Data for ‘MU – England’ see *MUQR*, 1867-1904 (OOA).

clearances and initiations into the British Oddfellows were calculated using the county annual returns published in the quarterly reports. The annual reports of the Registrars in New Zealand and Victoria, and the directories of the Foresters and the Oddfellows provided comparable data for Australasia. Across the second half of nineteenth century, initiation and clearance rates were much higher than in Britain – especially in the case of clearances. In effect this meant that there was a much larger stream of

‘strangers’ flowing into branches every year. In these circumstances it was particularly important that members felt a common identity as ‘Oddfellows’ and ‘Foresters’, elevating the importance of sociability and ritual practices.

Figure 4.35: Clearances (into branches) per 100 members, England and Australasia 1866-1910.



Note: MU = Oddfellows, AOF = Foresters. Source: Available editions of *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity*, between 1877-1910, see footnote 39 page 8; Editions of the *Directory of the Ancient Order of Foresters Friendly Society*, 1877-1908; Editions of *Friendly Societies: Report of the Registrar for New Zealand* for the years 1877-1910; successive volumes of ‘Statistics of Friendly Societies’, in *The Statistical Register for the colony of Victoria* (ML. Q319 2/V), 1877-1900; Data for ‘MU – England’ see *MUQR*, 1869-1904 (OOA).

Friendly society branches were also important social institutions in ‘frontier’ regions. In the context of New Zealand Jennifer Carlyon has emphasised the importance of lodge buildings in emerging settlements: ‘As an integral part of the community building process, lodges created and helped sustain a strong sense of

community'.⁵⁰³ A number of branches went out of their way to integrate lodges into local communities. After its opening in 1892 the Kembla Court of the Foresters was 'thrown open to the public, when a social tea was held to celebrate the event'.⁵⁰⁴ The event was so successful that drinks had to be served in relays.⁵⁰⁵ The hall of the Happy Home Lodge of the Oddfellows in Queanbeyan was at the centre of town processions, and hosted concerts, plays and the town's band.⁵⁰⁶ At the opening of the new hall of the Court Perseverance lodge (of the Foresters) in remote Digby in September 1873 the members marched through the town with a large crowd in attendance.⁵⁰⁷ The town's Boxing Day Ball was held in the hall later that year. The event was so convivial that the *Hamilton Spectator* noted that 'dancing was kept up until a late hour, and only for a disturbance caused by some larrikin visitors, everything would have passed off well'.⁵⁰⁸ From the 1850s, the Wellington Oddfellows held an annual Boxing Day excursion to Lowry Bay, open to all. The outing was extremely popular and in 1874 it attracted 3000 individuals.⁵⁰⁹

Friendly societies were also important institutions in 'settler' regions because they fostered ties between diverse occupational groups – what Putnam has termed 'bridging social capital'.⁵¹⁰ In the US a number of historians have argued that American fraternal societies were genuinely cross-class organisations, with blue-collar and white-collar occupations equally well represented.⁵¹¹ Australasian friendly societies also seem to have been more occupationally heterogeneous than British societies. Renfree has shown that friendly societies on the Victorian goldfields encompassed all sections of the workforce.⁵¹² This was also the case in other settlements in Victoria. In the five membership registers discussed in chapter 2 members came from across the

⁵⁰³ Carlyon, 'New Zealand Friendly Societies', p.54.

⁵⁰⁴ *Minutes of Proceedings of the 45th Annual delegates meeting of the Sydney District Ancient Order of Foresters, 8th - 10th March 1893* (Sydney, 1893), p.22 (ML.334.7 A).

⁵⁰⁵ *Idem*.

⁵⁰⁶ E.J. Lea-Scarlett, *Queanbeyan district and people* (Queanbeyan, 1968), pp.44, 123.

⁵⁰⁷ *The Hamilton Spectator*, 18th June 1873, (NLA. Microform, NX571).

⁵⁰⁸ *The Hamilton Spectator*, 7th January 1874, (NLA. Microform, NX571).

⁵⁰⁹ Carlyon, 'New Zealand Friendly Societies', p.64.

⁵¹⁰ Putnam, *Bowling Alone*, pp.22-24.

⁵¹¹ M.A. Clawson, *Constructing Brotherhood, Class, Gender and Fraternalism* (Princeton, 1989), pp.96-108; R. Orr and S.G. McNall, 'Fraternal Orders and Working-Class Formation in Nineteenth Century Kansas', in S.G. McNall, R.F. Levine, R. Fantasia, (eds.), *Bringing Class Back in, Contemporary and Historical Perspectives* (Colorado, 1991), pp.101-117; S.M. Blumin, *The Emergence of the Middle Class: Social Experience in the American City, 1760-1900* (Cambridge, 1989), pp.223-5. Dumenil, *Freemasonry*, pp.226-7; Clawson, 'Fraternal Orders', pp.578, 680-682, 684-5.

⁵¹² Renfree, 'Migrants and Cultural Transference', p.149, see also, J.B. Hirst, 'Keeping Colonial History Colonial: The Hartz Thesis Revisited', *Historical Studies*, 21, 82, (1984), pp.85-105.

occupational spectrum (see **table 4.14**). Between 1858 and 1921 2275 individuals were admitted listing 204 distinct occupations. Individuals working in services and the professions made up 21.6% of the sample. Individuals engaged in selling and vending made up a further 22.5%. As discussed in chapter 2, unskilled labourers were also well represented, representing 16% of the sample. In New Zealand Erik Olssen and Caroline Daley have used local-level records to argue that friendly societies recruited members from all classes within their respective local communities.⁵¹³ To test this hypothesis at the national level Carlyon has compiled occupational information on individuals joining a sample of 61 branches of affiliated societies located across New Zealand. Skilled workers dominated the membership registers throughout the period, represented between 34% and 42% of the sample between 1885 and 1910. Moreover unskilled and semi-skilled individuals were 42% of the members in 1910. The large proportion of members in white-collar jobs is evidence of the cross-class nature of New Zealand societies (encompassing petty proprietors, managers, officials, low white-collared and high white-collared workers): 18% in 1885, rising to 23% in 1910.⁵¹⁴ By bringing together individuals from diverse social groups Australasian friendly societies became important community institutions.

Table 4.14: Broad occupational categorisation of members admitted to a sample of Oddfellows lodges in Victoria, 1858-1921.

| Broad occupational category | Frequency | % |
|---|------------------|----------|
| Primary (farming and extractive) | 538 | 22.6 |
| Secondary (manufacturer and processing) | 665 | 28.0 |
| Tertiary (dealers) | 17 | 0.7 |
| Sellers | 534 | 22.5 |
| Services and professions | 514 | 21.6 |
| Without occupation or unstated | 108 | 4.5 |
| Total | 2376 | 100.0 |

Note: Classified using Primary, Secondary, Tertiary system. *Source:* footnote 259 page 101.

Conclusions

This chapter has brought new evidence to bear on the issue of the changing character of the friendly society movement over the nineteenth and early twentieth

⁵¹³ E. Olssen, *Building the New World: Work, Politics and Society in Caversham 1880s-1920s* (Auckland, 1995), p.368; C. Daley, *Girls & Women, Men & Boys, Gender in Taradale* (Auckland, 1999), p.154.

⁵¹⁴ Carlyon, 'New Zealand Friendly Societies', p.71.

centuries. As democratic organisations affiliated societies like the Oddfellows only functioned because of the willingness of members to engage and participate. In 1909 a Past Provincial Grand Master of the Oddfellows wrote:

‘This great and powerful organisation is only what the districts make it. The districts are only what the lodges make them, and the lodges are what the members make them. You see therefore how important it is for each individual to exert himself in promoting and encouraging others to join us in spreading our glorious and philanthropic principles. Just as the greatest rivers are made up of the smallest streams so is the Manchester Unity made up of small units’.⁵¹⁵

To extend the metaphor, the evidence presented here suggests that in Britain the streams were running dry. Lodge attendance was persistently low from the late nineteenth century and between 1845 and 1930 lodges began to meet less frequently. In both respects the major shifts took place long before the NHI Act of 1911. Participation in lodge governance was also fragile, with a small clique of members dominating recruitment and office holding.

Some historians have blamed the erosion of the ‘traditional’ friendly society movement on exogenous forces like Old Age Pensions, the NHI Act and new leisure opportunities.⁵¹⁶ To lay the blame at the door of these exogenous factors does not square with the chronology. Attendance was never particularly high and the declining frequency of lodge meeting was a trend going back to the 1850s. Cordery is more accurate to say that there was a sustained erosion of sociability and engagement from the mid-Victorian period.⁵¹⁷ Riley has suggested that falling attendance and a decline in public processions was a sign that the friendly societies were becoming more commercialised and introverted from the 1890s.⁵¹⁸ The historical chronology in Britain also undermines the way in which social scientists like Putnam have treated mutual aid organisations. Using aggregate membership figures as part of a more general measure of the stock of social capital is ahistorical and ignores internal changes occurring within these organisations. It is important to ascertain what

⁵¹⁵ Weinbren, *The Oddfellows*, p.27.

⁵¹⁶ Fisk, *Mutual Self-help*, p.178.

⁵¹⁷ Cordery, *British Friendly Societies*, pp.81-3, 176.

⁵¹⁸ Riley, *Sick, Not Dead*, pp.121-122.

membership actually entailed at different points in time. In Britain the number of members was trending up throughout the period, but with attendance and the general engagement so low it is difficult to see this as evidence of an increase in the stock of social capital. Another important point not discussed is that the average membership spell was probably very short, begging the question as to whether a member who joined for a few years had time to build any long lasting ties.⁵¹⁹

Forces within the friendly society movement were important drivers of change. Friendly societies were locked in an intractable dilemma. As the movement grew in popularity branches grew in size. Officials and members alike came to believe that this necessitated bureaucratic, commercial and actuarial practices, which undermined sociability. E.D. Wallace has employed the theories of Ferdinand Tönnies to explore this dilemma in the late eighteenth century. For Tönnies a *gemeinschaft* was characterised by a group of individuals who lived in a highly localised setting where tradition, hierarchy and mutuality prevailed. A *gesellschaft*, in contrast, was merely the coexistence of people independent of each other characterised by commodity exchange, contracts and individuals pursuing their own self-interest. The lodges of the Oddfellows were operating in a social field between these two poles. Wallace argued that the transition from *gemeinschaft* to *gesellschaft* went back to the late eighteenth century.⁵²⁰ However the transition was never total; it was an intractable dilemma that played out over the entire nineteenth century and across the English-speaking world. Using a variant of the same basic model, Timothy Alborn argued that there was a tension within the movement between consumerism and community.⁵²¹ The NHI scheme shifted the balance of force decisively in the direction of consumerism.⁵²² For Alborn the Act catalysed the final shift from fraternalism to insurance.⁵²³

There were a number of developments in the nineteenth century that contributed to the transition. First, the application of actuarial methods contributed to the decline of sociability and conviviality. Debates around actuarial reform were

⁵¹⁹ Gorsky, 'Mutual Aid' p.321.

⁵²⁰ Wallace, 'The Needs of Strangers', pp.54-55.

⁵²¹ Alborn, 'Senses of Belonging', p.573.

⁵²² Ibid., pp.593-5.

⁵²³ Ibid.,p.574.

not just about statistical metrics, but the meaning and purpose of the movement. When actuarial reforms were first proposed in the Oddfellows in the mid 1840s a vocal opposition saw it as ‘an insidious attempt to divert the order from its original benevolent purposes and designs, and to assimilate it in principle to an assurance society’.⁵²⁴ Penelope Ismay has provided a thorough discussion of the opposition to the actuarial reform in the 1830s and 1840s.⁵²⁵ Ismay persuasively argues that the opposition was very popular. However she also acknowledges that by the 1870s actuarial practices were ubiquitous.⁵²⁶ It is difficult to trace the cultural implications of reform down to the lodge-level, but it does seem that ‘actuarialism’ turned participation into a form of exchange where each individual paid their own way.⁵²⁷ As discussed, the ballooning size of lodges was another driving tend. This was good for the insurance function of societies, but there were negative social consequences. In the Oddfellows and the Foresters branches swelled to sizes that were unsuitable for collaborative, hands-on administration, and this exaggerated the ‘oligarchic’ drift.⁵²⁸ It is important to bear in mind that whilst the increasing focus on insurance changed the social meaning of membership, the defining purpose of the movement, to insure, was safeguarded.⁵²⁹

Although there was an endogenous logic to the changing social and cultural character of the friendly societies, this shift was not inevitable. In Australasia frequent meetings, high levels of attendance and ritual practices persisted through the nineteenth century. Some officials complained that members had come to see participation merely in terms of insurance, but when compared with Britain the shift was more muted. Branches remained small and highly intimate; one can go as far as to see them as genuine hubs of ‘social capital’. Australasian societies were more ritualised than the British societies, and adopted the American practice of meeting in purpose built lodge halls. There were a number of forces behind the divergence with Britain: the relative youth of the movement, higher rates of initiation and migration between branches, and a high proportion of single members being the most important.

⁵²⁴ Ismay, ‘Trust Among Strangers’, p.120

⁵²⁵ Ibid, chapter 5.

⁵²⁶ Ibid, pp.128, 137.

⁵²⁷ Ibid, pp.140, 145.

⁵²⁸ Fisk, *Mutual Self-help*, p.178.

⁵²⁹ Gorsky, ‘Mutual Aid’, p.322.

Table 4.15: Average members per lodge by country, Oddfellows 1866-1904.

| County | Members per lodge | | | Percentage Change | |
|---|-------------------|--------|--------|-------------------|-----------|
| | 1866 | 1885 | 1904 | 1866-1885 | 1885-1904 |
| Bedfordshire | 88.41 | 126.13 | 160.14 | 42.67 | 26.96 |
| Berkshire | 140.00 | 207.03 | 263.13 | 47.88 | 27.10 |
| Buckinghamshire | 149.50 | 205.89 | 220.79 | 37.72 | 7.24 |
| Cambridgeshire | 87.13 | 124.07 | 212.37 | 42.39 | 71.17 |
| Cheshire | 114.32 | 140.13 | 189.11 | 22.58 | 34.95 |
| Cornwall | 123.45 | 159.61 | 222.84 | 29.29 | 39.62 |
| Cumberland | 116.24 | 142.02 | 180.05 | 22.18 | 26.78 |
| Derbyshire | 128.14 | 148.25 | 190.41 | 15.70 | 28.44 |
| Devonshire | 98.88 | 168.54 | 226.70 | 70.45 | 34.51 |
| Dorsetshire | 106.63 | 192.85 | 191.29 | 80.86 | -0.81 |
| Durham | 108.75 | 150.45 | 169.02 | 38.34 | 12.34 |
| Essex | 150.50 | 145.89 | 199.93 | -3.06 | 37.04 |
| Gloucestershire | 98.33 | 153.20 | 143.70 | 55.80 | -6.20 |
| Hampshire | 111.26 | 215.92 | 261.48 | 94.07 | 21.10 |
| Herefordshire | 134.92 | 147.38 | 182.27 | 9.24 | 23.67 |
| Hertfordshire | 147.08 | 217.19 | 250.68 | 47.66 | 15.42 |
| Huntingdonshire | 319.00 | 197.50 | 221.50 | -38.09 | 12.15 |
| Channel Islands | 147.79 | 262.29 | 325.26 | 77.48 | 24.01 |
| Kent | 121.83 | 180.08 | 262.89 | 47.82 | 45.98 |
| Lancashire | 124.59 | 125.51 | 166.52 | 0.74 | 32.67 |
| Leicestershire | 88.19 | 133.45 | 189.84 | 51.32 | 42.26 |
| Lincolnshire | 110.03 | 170.42 | 223.35 | 54.89 | 31.05 |
| Middlesex | 117.99 | 178.86 | 252.04 | 51.59 | 40.91 |
| Monmouth | 100.51 | 115.20 | 127.11 | 14.62 | 10.33 |
| Norfolk | 125.48 | 200.75 | 280.82 | 59.99 | 39.89 |
| Northamptonshire | 98.54 | 151.22 | 228.18 | 53.47 | 50.89 |
| Northumberland | 99.29 | 124.86 | 141.74 | 25.75 | 13.52 |
| Nottinghamshire | 124.42 | 136.11 | 164.91 | 9.39 | 21.17 |
| Oxfordshire | 76.43 | 172.14 | 182.96 | 125.23 | 6.28 |
| Rutlandshire | n/a | 113.00 | 160.50 | n/a | 42.04 |
| Shropshire | 145.70 | 160.41 | 204.14 | 10.09 | 27.26 |
| Somersetshire | 105.00 | 110.73 | 115.50 | 5.46 | 4.31 |
| Staffordshire | 97.40 | 139.88 | 182.81 | 43.61 | 30.70 |
| Suffolk | 117.39 | 193.54 | 278.75 | 64.87 | 44.03 |
| Surrey | 103.68 | 132.00 | 138.11 | 27.31 | 4.63 |
| Sussex | 181.70 | 178.30 | 161.86 | -1.87 | -9.22 |
| Warwickshire | 95.32 | 162.65 | 216.79 | 70.63 | 33.29 |
| Westmorelandshire | 155.00 | 171.85 | 223.64 | 10.87 | 30.14 |
| Wiltshire | 111.24 | 178.11 | 232.34 | 60.11 | 30.45 |
| Worcestershire | 79.36 | 119.96 | 149.72 | 51.17 | 24.80 |
| Yorkshire | 127.06 | 151.97 | 210.84 | 19.61 | 38.74 |
| Ireland | 58.30 | 66.79 | 59.30 | 14.56 | -11.21 |
| Scotland | 178.33 | 184.89 | 23.51 | 3.68 | -87.29 |
| Wales | 102.74 | 123.02 | 139.82 | 19.74 | 13.66 |
| Weighted average change (by members in 1866 and 1885) | 118.74 | 155.66 | 205.63 | 28.93 | 26.01 |

Source: see source note table 4.1

Chapter 5 – The impact of the National Health Insurance Act of 1911: Evidence from the English Foresters and Australasia 1900-1930

Introduction

The history of mutual aid organisations is too often presented as a ‘declensionist narrative’, with a nineteenth century boom and a twentieth century bust. A recent book by one leading authority was even titled *From mutual aid to welfare state*.⁵³⁰ This approach perpetuates a misleading dichotomy: mutual aid *or* the welfare state (the title of another book in the field).⁵³¹ Presenting the state and mutualism as locked in a zero-sum battle was commonplace around the English-speaking world at the beginning of the twentieth century. In Australia Dr F. Lloyd of Victoria told a 1906 Royal Commission that state old-age pensions ‘would discourage ... thrift and self exertion’.⁵³² In 1893 an article in the *Sydney Morning Herald* used the same framework to explain why private benevolence was preferable to state aid: ‘Where a duty is undertaken by the State, and the individual is relieved of any personal trouble, he ceases to take personal interest in the ills and needs of his fellows, his charitable instincts become atrophied from disuse and the... whole moral effect on the public spirit is sacrificed’.⁵³³ In Britain Sir Michael Hicks Beach thought it would be wrong for the state to give the elderly money without regard to their moral character.⁵³⁴ Even William Beveridge rejected the idea of a non-contributory pension because ‘it sets up the state in the eyes of the individual as a source of free gifts’. He refused to believe that even the poorest could not afford to contribute; ‘surely they waste more than two pence a week on drink’.⁵³⁵ Beveridge echoed the sentiments of another civil servant, who in 1871 argued that ‘outdoor relief’ ‘extinguishes in the mind of the labourer all motive for husbanding his resources, and induces him to rely upon the

⁵³⁰ Beito, *From Mutual Aid*.

⁵³¹ Green and Cromwell, *Mutual Aid*; Murray falls back on the same dichotomy, see Murray, *Origins of American Health Insurance*, pp.3-5, 152.

⁵³² Murphy, *A Decent Provision*, p.97.

⁵³³ *Ibid.*, p.25.

⁵³⁴ M. Pugh, ‘Working-class experience and state social welfare, 1908-1914: Old Aged Pensions Reconsidered’, *The Historical Journal*, 45, 4, (2002), pp.777.

⁵³⁵ *Ibid.*, p.777.

rates instead of upon his own savings.⁵³⁶ It was common to see the rise of the friendly societies in the 1840s as a consequence of the dismantling of the Old Poor Laws, which Toynbee saw as ‘calculated to undermine all attempts on the part of the working classes to become independent’.⁵³⁷ Such bold claims were rarely subjected to empirical testing. This chapter seeks to redress this problem and questions the trope that state-help elbowed out self-help.

A number of economists and economic historians have reaffirmed the Victorian argument that state administered social security undermined individual thrift. In *A Theory of the Consumption Function* Milton Friedman argued that ‘social security would clearly tend to reduce the need for private reserves and so reduce private savings’.⁵³⁸ Since the 1970s Martin Feldstein has repeated this point in a number of empirical studies, stimulating a vast literature.⁵³⁹ In a historical context Fishback and Kantor have argued that the introduction of compulsory worker’s compensation laws in the US in the first half of the twentieth century crowded out private insurance and savings.⁵⁴⁰ Murray has argued that non-contributory means tested benefits inevitably reduced precautionary and long-term capital accumulation.⁵⁴¹ Following a similar logic, Beito has argued that the ‘welfare state’ displaced a vibrant tradition of mutual aid and fraternalism in the US.⁵⁴² Finally, Green and Cromwell blame the decline of friendly societies in Australia on the development of state welfare measures.⁵⁴³ Green has repeated this argument for

⁵³⁶ Henry Fleming, secretary of the Local Government Board, quoted in P. Murray, *Poverty and Welfare, 1830-1914* (London, 1999), p.41.

⁵³⁷ Toynbee, ‘The Present’, p.892; see also, Walter, ‘The History’, p.197.

⁵³⁸ M. Friedman, *A Theory of the Consumption Function* (Princeton, 1957), p.123.

⁵³⁹ M. Feldstein, ‘Social Security, Individual Retirement and Aggregate Capital Accumulation’, *Journal of Political Economy*, 82, 5, (1974) pp.905-926; M. Feldstein, ‘Private Accounts Can Save Social Security’, *Wall Street Journal*, (May 2, 2011); See also P.C Ferreira and M.R. dos Santos, ‘The effect of social security, health, demography and technology on retirement’, *Review of Economic Dynamics*, 16, 2, (2013), pp.350-370; D.R Leimer and D.H Richardson, ‘Social Security, Uncertainty Adjustments and the Consumption Decision’, *Economica*, 59, 235, (1992), pp.311-335; A.L Gustman, and T.L. Steinmeier. ‘Effects of Social Security Policies on Benefit Claiming, Retirement and Saving’, NBER Working Paper Series, No.19071, (May 2013); G. Busch and M. Wüger, ‘Social Security and Saving – A Critical Note on the Feldstein Hypothesis’, *Empirica*, 8, 2, (1981), pp.223-240; R. Eisner, ‘Social Security, Saving, and Macroeconomics’, *Journal of Macroeconomics*, 5, 1, (1983), pp.1-19; W.S. Cartwright, ‘Saving, Social Security and Private Pensions’, *International Social Security Review*, 37, 2, (1984), pp.123-138.

⁵⁴⁰ S.E. Kantor and P.V. Fishback, ‘Precautionary Saving, Insurance, and the Origins of Workers’ Compensation’, *Journal of Political Economy*, 104, 2, (1996), pp.419-442.

⁵⁴¹ Murray, *Origins of American Health Insurance*, p.152.

⁵⁴² Beito, *From Mutual Aid*.

⁵⁴³ Green and Cromwell, *Mutual Aid*.

Britain, arguing that ‘when national insurance was introduced it attended only to the material dimension and in separating the cash benefits from the moral and educational role of the societies destroyed their essence’.⁵⁴⁴

In contrast a number of historians have argued against such an approach and have employed the concept of a ‘mixed economy of welfare’.⁵⁴⁵ In this framework alternative forms of welfare provision are seen as intersecting and overlapping. While the role of the state may have grown in the twentieth century there is no need to assume that this inevitably entailed a diminished role for mutualism.⁵⁴⁶ Geoffrey Finlayson has argued that voluntarism and mutualism were not wholly superseded, but remained ideologically and practically important.⁵⁴⁷ The relationship between the state and voluntarism was a ‘moving frontier’ rather than a neat displacement of the latter by the former.⁵⁴⁸ There is abundant evidence of the continued vitality of the mutual aid tradition. In his pioneering research on the working class economy, Paul Johnson has extensively documented the continued popularity of retail cooperatives, building societies, life insurance orders, trade unions and friendly societies in the early twentieth century in Britain.⁵⁴⁹ Similarly in Australia participation in a number of self-help organisations actually increased in the first half of the twentieth century (see **figures 5.1-5.3**).

⁵⁴⁴ D. Green, ‘The Friendly Societies and Adam Smith Liberalism’, in D. Green (ed.), *Before Beveridge: welfare before the welfare state* (London, 1999), pp.24-5.

⁵⁴⁵ For the Antipodes, see Thomson, *A world*, pp.1-6; J. Murphy, ‘The other welfare state: Non-government agencies and the mixed economy of welfare in Australia’, *History Australia*, 3, 2, (2006), pp.44.1-44.15; Murphy, *A Decent Provision*, pp.29-55.

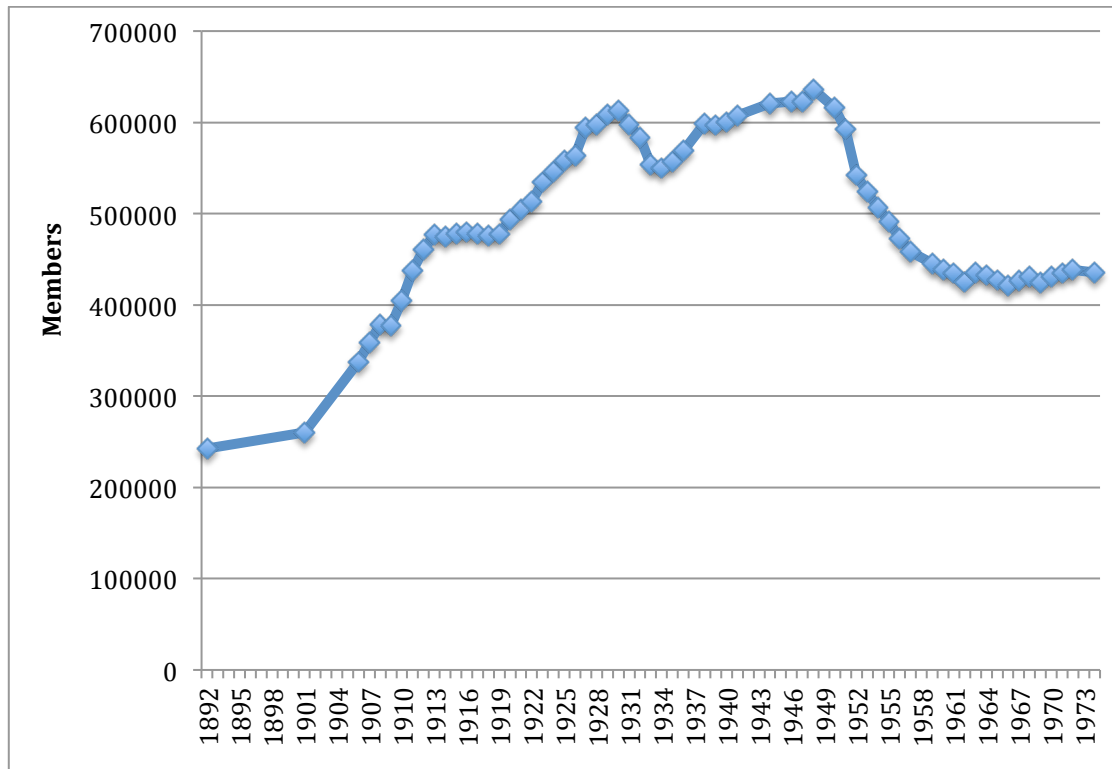
⁵⁴⁶ M. Hilton and J. McKay, *The Ages of Voluntarism: How we got to the Big Society* (Oxford, 2011), p.2.

⁵⁴⁷ Finlayson, ‘A Moving Frontier’, p.184; Finlayson *Citizen*, pp.205-208.

⁵⁴⁸ Finlayson, ‘A Moving Frontier’, pp.184-5; for other periods see J. Harris, ‘Introduction; Civil Society in British History: Paradigm or Peculiarity?’, in J. Harris (ed.), *Civil Society in British History: Ideas, Identities, Institutions*, (Oxford, 2003), pp.1-12.

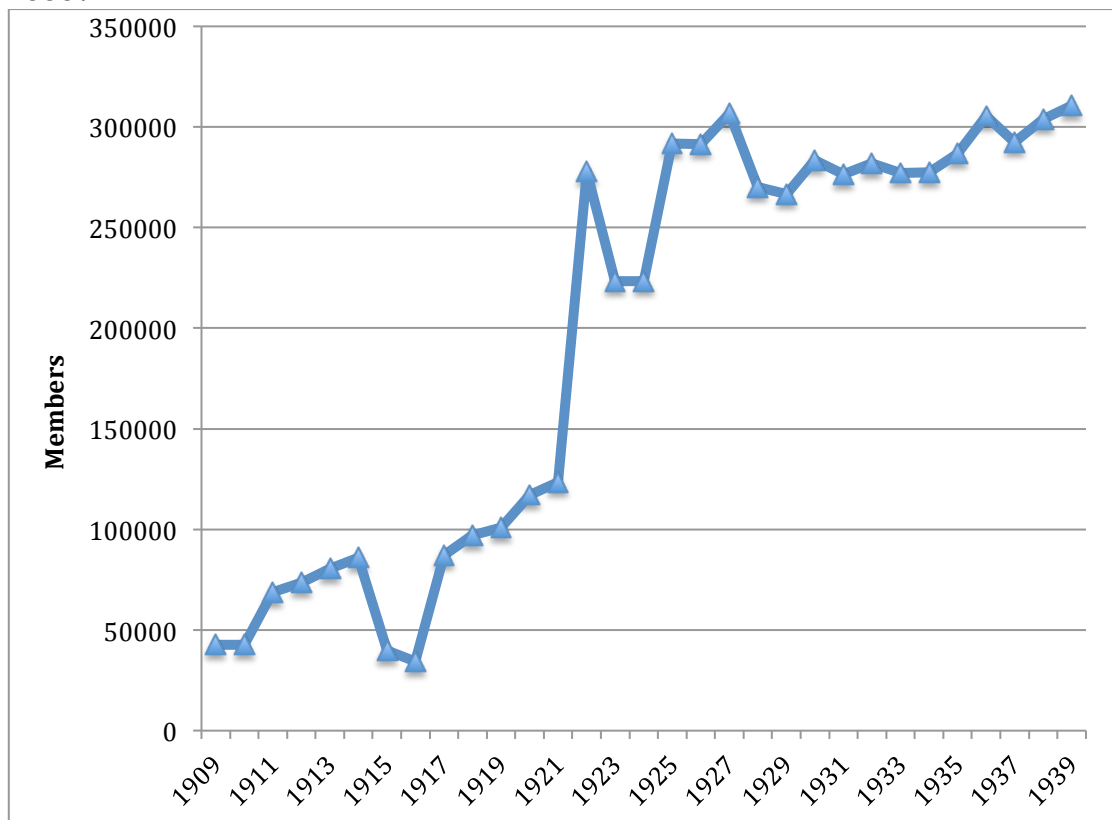
⁵⁴⁹ Johnson, *Saving and Spending*.

Figure 5.1: Membership of registered friendly societies, Australia 1892-1974.



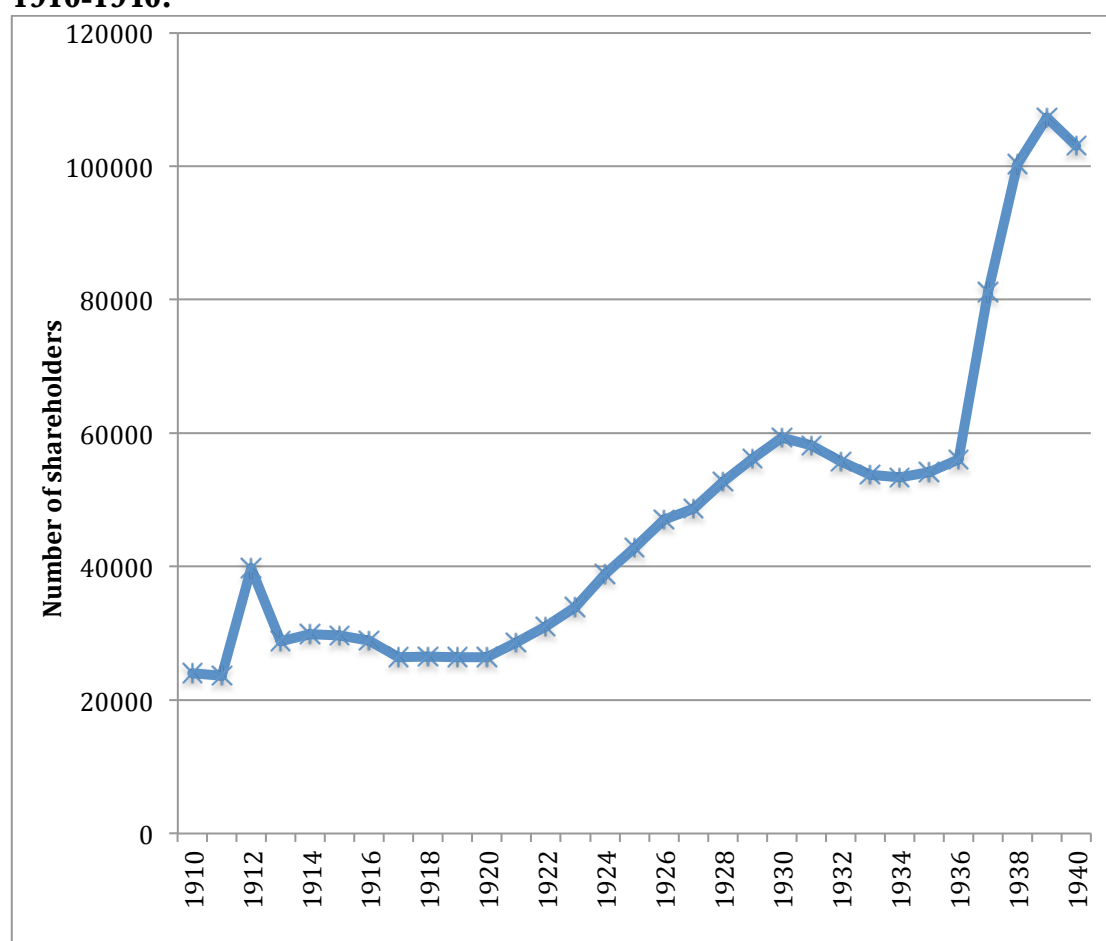
Source: *Official Year Book of the Commonwealth of Australia*, 1908-1941.

Figure 5.2: Membership of cooperatives of all types in Australia, 1909-1939.



Source: *Official Year Book of the Commonwealth of Australia*, 1908-1941.

Figure 5.3: Number of shareholders of building societies in Australia, 1910-1940.



Source: *Official Year Book of the Commonwealth of Australia*, 1908-1941.

This chapter focuses on the British National Health Insurance (hereafter NHI) scheme, in operation between 1911 and 1948. The history of NHI scheme has been written from the perspective of the establishment of the National Health Service in 1948. Most historians have followed Beveridge in condemning the scheme and have focussed on why it failed.⁵⁵⁰ Given that so many friendly societies became approved societies responsible for administering the Act, the fate of the friendly society movement became intertwined with the fate of the NHI scheme; the traditional argument is that they fell together. In the words of one economist, ‘the [friendly] societies’ position in the market was steadily undermined by the successive pieces of legislation that established and developed the state national insurance system, starting with the 1911 National Insurance Act’.⁵⁵¹

⁵⁵⁰ W. Beveridge, *Social Insurance and allied services* [Cmd.6404], (London, 1942), pp.13-15.

⁵⁵¹ Yarrow, ‘The Friendly Societies’, p.34.

There are two prevailing interpretations of the failure of the NHI scheme. Gilbert and Honigsbaum have argued that the organisations administering the Act objected to the expansion of benefits because of ideological hostility to state social security measures and fear that this would undermine their business.⁵⁵² Noelle Whiteside has questioned this interpretation, arguing that it ignores the role played by Whitehall in determining which benefits approved societies were allowed to offer. Through the actuarial valuation process governments were able to keep individual society funds in Whitehall rather than remitting profits back to them to pay for new benefits.⁵⁵³ Whiteside, Gilbert, Honigsbaum and others have primarily been concerned with how the 'state' side of the approved societies functioned and why the scheme failed, not with how the Act influenced the core 'voluntary' side of the friendly society movement. This chapter tries to fill in this gap.

Historians disagree about the impact of the NHI scheme on the friendly societies but it is rare for the topic to be discussed in any detail. One issue is that most studies end in 1914 and therefore only consider the emergence of the NHI Act. PHJH Gosden concluded that the societies 'not only survived but apparently flourished' under the policy, but only dedicated a single page to the topic.⁵⁵⁴ Simon Cordery also ended his book in 1914, dealing with the issue in a few paragraphs. Following Beveridge, Cordery argued that the NHI Act benefited the insurance function of the friendly societies but at a cultural and social cost (see chapter 4).⁵⁵⁵ Weinbren has presented a more pessimistic interpretation, producing ample qualitative evidence that lodges of the Oddfellows were adversely affected by the administrative burden of the scheme. Weinbren argued that sickness claims increased, sociability and attendance fell and for some lodges the scheme was financially ruinous.⁵⁵⁶ Alborn has also argued that the Act changed the social meaning of the movement, making 'friendlies' more bureaucratic and commercialised.⁵⁵⁷ It is, however, unlikely that the Act was responsible for all the problems facing the friendly societies. Chapter 4 demonstrated that participation and attendance levels were low

⁵⁵² B. Gilbert, *British Social Policy, 1914-1939* (Ithaca, N.Y., 1970), pp.300-304; F. Honigsbaum, 'The Interwar Health Insurance Scheme: A Rejoinder', *Journal of Social Policy*, 12, 4, (1983), pp.515-523.

⁵⁵³ N. Whiteside, 'Private Agencies for Public Purposes: Some New Perspectives on Policy Making in Health Insurance Between the Wars', *Journal of Social Policy*, 12, 2, (1983), pp.165-193.

⁵⁵⁴ Gosden, *Self-help*, pp.282-3.

⁵⁵⁵ Cordery, *British Friendly Societies*, pp.172-3; Beveridge *Voluntary Action*, pp.78-9.

⁵⁵⁶ Weinbren *The Oddfellows*, pp.146-150, 152-155, 157-158.

⁵⁵⁷ Alborn, 'Senses of Belonging', pp.571-582.

from the mid-nineteenth century. Industrial assurance companies and branchless ‘collecting societies’ like the Prudential, Liverpool Victoria and National Deposit Friendly Society did particularly well out of the Act and increased their market share.⁵⁵⁸ However as Johnson has argued, this reflected a longer-term shift in working class saving patterns and it difficult to determine the specific impact of the NHI scheme separate from wider trends.⁵⁵⁹

The impact of NHI on the friendly societies fits into a broader debate over the consequences of state administered compulsory health insurance (CHI). There are two main objections to CHI: that it creates a moral hazard problem and undermines voluntary insurance. John Murray has argued that the CHI schemes developed in Europe between 1880 and 1920 led to an increase in sickness claims.⁵⁶⁰ With the state covering a higher proportion of individuals and providing higher levels of benefits, citizens responded by absenting themselves from work. Murray mainly focused on Germany and did not explicitly deal with Britain, but suggested that the state sponsored scheme harmed the friendly societies by eroding mutualism and leading to an increase in claims.⁵⁶¹ There is evidence that sickness claims increased on the state side over the 1920s, but it is unclear why this would have affected the friendly societies proper, given that claims on the state scheme were paid for from the state funds.⁵⁶² It is plausible that individuals on both the state and a voluntary scheme claimed more, and that approved societies were unable to monitor their own claims as effectively after 1911. However these are hypotheses that have to be tested empirically.

The main issue with the existing literature is a lack of evidence. Weinbren has provided the most thorough examination of the operation of the NHI scheme but much of his evidence is qualitative. This is instructive, but many of his claims are inherently quantitative; did the scheme have a negative impact on the financial position of societies, or lead to an increase in sickness claims? Others have relied on

⁵⁵⁸ Cordery, *British Friendly Societies* pp.172-3; Harris, *The Origins*, pp.192-3.

⁵⁵⁹ Johnson, *Saving and Spending*, pp.16-19, 40-42, 204-5.

⁵⁶⁰ Murray, *Origins of American Health Insurance*, pp.55-62, 243, 247.

⁵⁶¹ *Ibid.*, pp.40-41, 99.

⁵⁶² N. Whiteside, ‘Counting the Cost: Sickness and Disability among Working People in an Era of Industrial Recession, 1929-1939’, *The Economic History Review*, 40, 2, (1987), pp.233-237.

very aggregate-level statistics.⁵⁶³ It is important to keep the discussion on a firm empirical basis, especially given the ideologically charged nature of the issues. Conservative historians like Beito, Green and Cromwell have argued that the emergence of state welfare polices destroyed the mutual aid tradition, and make it clear that they think that this is was regrettable.⁵⁶⁴ In the case of the US Murray and Emery have criticised historical accounts of the failure of Progressive plans for national health insurance for assuming that the policy would have been a welfare gain.⁵⁶⁵ They are correct to suggest that this ideological bias has stood in the way of a thorough, and non-teleological, examination of fraternal and industrial sickness insurance schemes.⁵⁶⁶ However Murray falls into the same ideological trap, explicitly stating that his findings ‘have political implications’ because they demonstrate that ‘progressive proposals to replace [existing sickness funds] with government insurance were misguided’. He even goes on to criticise the current state health insurance scheme in the US.⁵⁶⁷ This chapter represents the first attempt at identifying the impact of the NHI scheme on friendly societies at the branch-level. The first section explores how the scheme operated and the potential consequences for individual societies. The second section analyses the effect of the Act on a random sample of courts of the Foresters between 1909 and 1922. The final section compares the development of affiliated societies in Australasia and Britain between 1900 and 1930.

Section 1: The National Health Insurance scheme

The National Health Insurance scheme was the culmination of the social welfare programme of the ‘new liberalism’ and lasted from 1911 until 1948.⁵⁶⁸ The scheme combined what are now classified as social security benefits (sickness and disablement benefit) with basic medical care.⁵⁶⁹ Participation was compulsory for manual labourers and anyone over the age of 16 earning less than £160 per annum,

⁵⁶³ Harris, *The Origins*, pp.192-195, 211-213; Gosden, *Self-help*, pp.282-3; Cordery, *British Friendly Societies* pp.172-3;

⁵⁶⁴ Beito, *From Mutual Aid*; Green and Cromwell, *Mutual Aid*; Green, *Working Class Patients*.

⁵⁶⁵ Emery “‘Un-American’ or unnecessary?”, pp.69, 71.

⁵⁶⁶ Murray, *Origins of American Health Insurance*, p.20; Emery, “‘Un-American’ or unnecessary?”, p.71.

⁵⁶⁷ Murray, *Origins of American Health Insurance*, pp.xii, 245-247.

⁵⁶⁸ B. Gilbert, *The Evolution*, p.289.

⁵⁶⁹ N. Whiteside, ‘Social protection in Britain 1900-1950 and welfare state development: the case of health insurance’, in S. Castillo (ed.), *La Prevision Social en la Historia* (Siglio, 2009), p.526.

or £250 per annum after 1920.⁵⁷⁰ Employers paid contributions by purchasing a revenue stamp, costing 7p, from the post office. The employer then made a deduction of 4p from the employee's weekly wage. Stamps were affixed to the individual's own national insurance card, which was presented to an 'approved society' of the individual's choosing. The society used these cards as proof of contributions and would dispense benefit when required. The government reimbursed societies quarterly and contributed 2p for every 9p of benefits distributed (reduced to 1p for every 5p in 1928).⁵⁷¹ Individuals on any income could insure themselves voluntarily by purchasing a stamp, but they would have to pay the employers' portion of contributions. The scheme enabled insured workers to obtain free medical treatment from a designated general practitioner, and granted them access to free sanatorium treatment if they were suffering from tuberculosis. Sickness benefit rates were set at 10 shillings a week for the first 26 weeks of illness, or 7s 6d for women. After 26 weeks the individual was paid a disablement benefit of 5s a week. Insured women and the wives of insured men were entitled to maternity benefits as well.⁵⁷²

The approved societies were the basic administrative units of the scheme. Lloyd George's original vision derived from the idea of extending friendly society provision to all working people.⁵⁷³ In 1910 he told representatives of the Oddfellows that 'I have so much appreciation for the work of friendly societies that my theory is that we ought to work through the friendly societies as they are by far and away the best agencies for the purpose'.⁵⁷⁴ The final Act of 1911 represented a substantial deviation away from this ideal, but the friendly societies still had a pivotal role in administering the scheme. The Act was a thoroughly liberal piece of legislation in its commitment to competition, choice, and collective/individual responsibility. To qualify for approved status an organisation had to meet two conditions: it had to be entirely not-for-profit and under the control of members (which was subject to loose interpretation).⁵⁷⁵ Approved societies were, in theory, self-governing entities. Lloyd

⁵⁷⁰ Harris, *The Origins*, p.163; H. Levy, *National Health Insurance: A Critical Study* (Cambridge, 1944), p.34.

⁵⁷¹ See Gilbert, *The Evolution*, pp.354-55.

⁵⁷² Harris, *The Origins*, p.163.

⁵⁷³ B. Gilbert, 'The British National Insurance Act of 1911 and the Commercial Insurance Lobby', *Journal of British Studies*, 4, 2, (1965), pp.147-148.

⁵⁷⁴ Cordery, *British Friendly Societies*, p.166.

⁵⁷⁵ Levy, *National Health Insurance*, p.7.

George believed this was essential to the success of the scheme, writing in his notes on the Bill in June 1911 that:

‘Experience shows that the business of controlling sickness claims cannot be properly managed without local interest and cooperation of members of a society. It is therefore proposed in this clause that the societies administering the benefits should be set up... in the way friendly societies and trade unions... now conduct their business’.⁵⁷⁶

Self-governance was intended to give workers a stake in the scheme, encouraging monitoring, fiscal restraint and a sense of propriety. In theory, this would prevent excessive claims and encourage efficiency. Using the cost of administration per £100 of benefits distributed as a measure of efficiency, it does seem that the approved society system was fairly efficient, although there was little improvement between 1914 and 1935 (see **figure 5.4**). The desire to give the approved societies autonomy meant granting them the power to reject applicants on any ground other than age.⁵⁷⁷ On the other hand giving individuals choice over which approved society they joined was intended to ensure competition. Under Clause 30, societies that performed well and accrued surplus funds could apply for the extension of new benefits.⁵⁷⁸ In theory this would allow them to attract new members, but funds were rarely forthcoming. One commonly overlooked fact is that Whitehall had complete control over the approved societies funds, which were held on their behalf. All contributions went into this pot, including the government subsidy. Whiteside has extensively documented how conservative valuations by the government actuary prevented the extension of benefits.⁵⁷⁹ This left the approved societies hamstrung, especially the friendly societies. Over time government contributions into the scheme also fell, from 25% of total income in 1915 to 16% in 1932.⁵⁸⁰ Of course competition led to variation in the quality of approved societies. The select committee of 1924-1925 into national health insurance was brutally upfront about this, noting that if an individual picked a poorer

⁵⁷⁶ Quoted in Gilbert, *The Evolution*, p.351.

⁵⁷⁷ *Ibid.*, p.351.

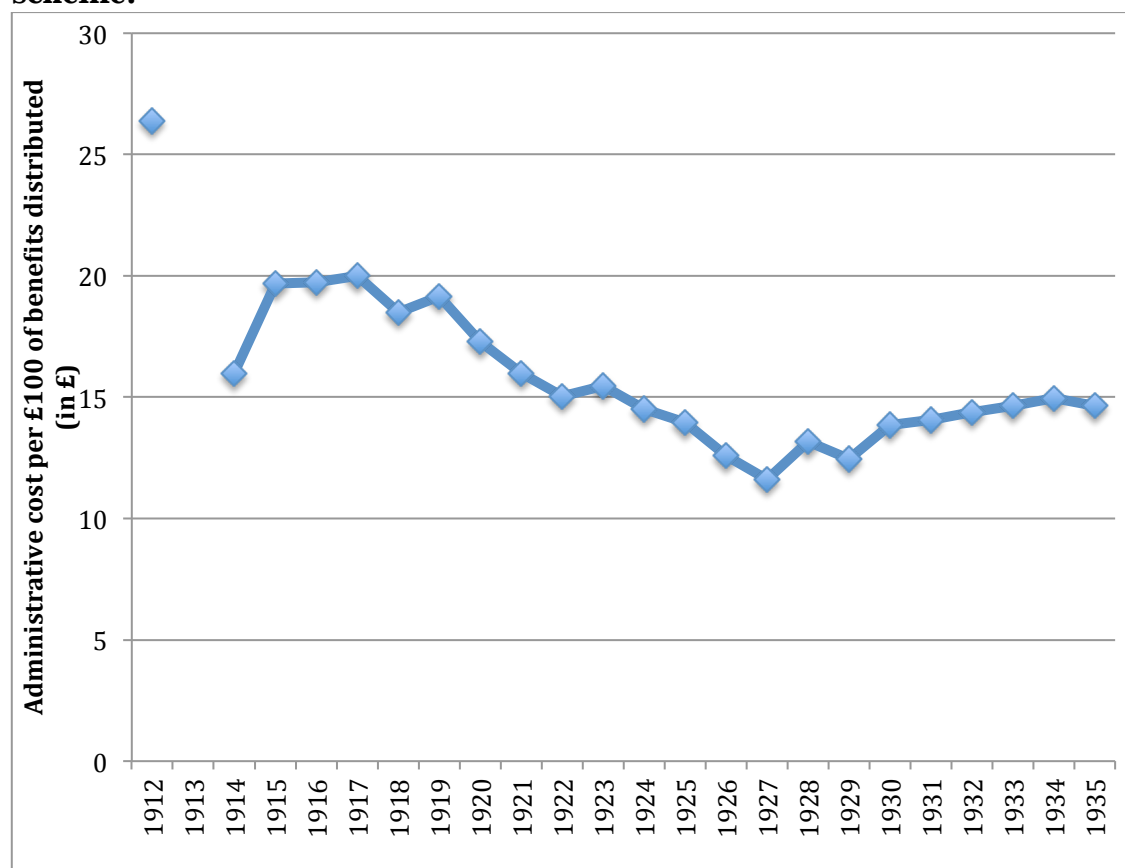
⁵⁷⁸ Levy, *National Health Insurance*, p.12.

⁵⁷⁹ Whiteside ‘Private Agencies’, p.185.

⁵⁸⁰ *Twenty-second abstract of labour statistics of the United Kingdom (1922-1936)*, Ministry of Labour [Cmd. 5556], (P.P., 1936-37, XXVI), pp.166-167; *Eighteenth abstract of labour statistics of the United Kingdom*, Ministry of Labour [Cmd. 2740], (P.P., 1926, XXIX), pp.208-9.

society 'he is to some extent, responsible for the unfortunate position in which he finds himself'.⁵⁸¹

Figure 5.4: Administrative cost of approved societies and central committees per £100 of benefits distributed through the British NHI scheme.



Source: *Twenty-second abstract of labour statistics of the United Kingdom (1922-1936)*, Ministry of Labour [Cmd. 5556], pp.166-167; *Eighteenth abstract of labour statistics of the United Kingdom*, Ministry of Labour [Cmd. 2740], pp.208-9.

There were some that thought that the scheme would benefit the friendly societies. To understand why, it is important to emphasise that in 1910 the viability of the friendly society movement looked precarious, especially in the case of the affiliated societies. Ordinary and affiliated societies were losing out to the enormous industrial assurance companies and collecting friendly societies (see below). Between 1885 and 1905 admissions to societies with branches were down from 8.89 per 100 members to 7.63, whilst secessions went up from 5.36 per 100 members to 6.18.⁵⁸² The Forester's actually shrank in size between 1900 and 1912 by 3%. Whilst most

⁵⁸¹ Quoted in Levy, *National Health Insurance*, p.26.

⁵⁸² *Reports of the Chief Registrar of Friendly Societies for the year ending 31st December 1906*, Part A, Appendix N, Section XI [49], (London, 1907), p.xxiv.

societies had a healthy and growing stock of capital, running costs were increasing.⁵⁸³ Sick pay per member had increased in every major affiliated society between 1899-1913, and just as worryingly, so too had the proportion of income spent on benefits (see **table 5.1**).

The increasing cost of sickness benefits reflected an aging population problem within the movement, and this actually led many to support the development of state pensions. Between 1905 and 1910 the proportion of affiliated society members over 65s increased from 4.88% to 5.38%, a 20% increase.⁵⁸⁴ Friendly societies were not officially pension providers. However over the nineteenth century a number of the larger ‘affiliated societies’ found themselves providing pensions for old members who were perpetually too sick to work.⁵⁸⁵ Over time, as the membership of these societies aged, the burden of supporting older members became a major concern.⁵⁸⁶ Emery and Broten have questioned whether this was a problem that threatened the stability of friendly society lodges.⁵⁸⁷ Regardless of whether the societies were at risk of ruin, many both inside and outside the movement were convinced that they were.⁵⁸⁸ In 1898 Sir Edward Brabrook conducted a survey for the Committee on Old Age Pensions on the financial condition of the thirty-four largest orders in the UK and concluded that most societies were financially vulnerable. In a confidential report to the same committee Alfred Watson, a leading actuary within the Oddfellows, argued that ‘old age, as distinguished from sickness, was not contemplated as a period of special necessity when societies were established, and reformers have subsequently had a sufficient task (and one by no means yet accomplished) in inducing the payment of adequate contributions for the limited benefits promised’.⁵⁸⁹ Although many societies remained ideologically opposed to pensions, some came to see them as a

⁵⁸³ In the largest 11 affiliated societies capital per member increased 45.9% between 1899 and 1912, see *Seventeenth abstract of labour statistics of the United Kingdom, Board of Trade (Department of Labour Statistics)* [Cd. 7733] (P.P., 1914-16, LXI), pp.258-263.

⁵⁸⁴ *Reports of the chief Registrar of friendly societies for the year ending 31st December 1911*, Part A, Appendix N, *List of societies registered under the Friendly Societies Act at 31st December 1910, with summary of annual returns received for the year ending that date. Introductory memorandum containing explanatory notes and general information on the work of friendly societies during 1910* [123-I-XII], (P.P., 1912-13, LXXXI-LXXXII), p.7.

⁵⁸⁵ Riley, *Sick, Not Dead*, pp.145-151.

⁵⁸⁶ Wilkinson, ‘Friendly Society’, pp.725-726.

⁵⁸⁷ Emery, ‘Risky Business?’, pp.195-226; Broten, ‘From sickness to death: the financial viability’.

⁵⁸⁸ Gilbert, ‘The Decay’ pp.553-555.

⁵⁸⁹ *Ibid.*, p.557.

necessary response to these internal challenges.⁵⁹⁰ In 1906 the Registrar for friendly societies circulated a questionnaire asking societies whether they felt the proposed pension plan would injure them. The vote was split; 67 of 151 said yes, 64 no, and 20 abstained. Several noted that they might now be in a position to end sick pay for the aged. In summary, while the friendly societies never wholeheartedly supported state pensions, they acquiesced.⁵⁹¹ In the words of Simon Cordery ‘the friendly societies needed the relief offered by state-funded pensions but could not accept the premise that government had a legitimate role in welfare’.⁵⁹²

Table 5.1: Sick pay per member and ratio of benefits to income in the ten largest affiliated societies in Britain, 1899-1913.

| Society | Benefits distributed per £100 of income (in £) | | | Sick pay per member (in £) | |
|--|--|-------|-------|----------------------------|------|
| | 1899 | 1906 | 1913 | 1899 | 1913 |
| MUIOOF | 58.31 | 57.54 | 78.10 | 0.86 | 1.01 |
| AOF | 63.65 | 70.53 | 79.92 | 0.87 | 1.04 |
| IOR | 72.85 | 64.71 | 75.00 | 0.77 | 0.85 |
| Ancient Order of Shepherds | 65.47 | 63.47 | 93.01 | 0.67 | 0.94 |
| Grand United Order of Oddfellows | 88.47 | 85.47 | 82.50 | 0.72 | 0.95 |
| National Independent Order of Oddfellows | 81.90 | 69.06 | 86.72 | 0.63 | 0.91 |
| National United Order of Free Gardeners | 92.70 | 94.92 | 98.61 | 0.70 | 1.05 |
| UAOD | 68.88 | 75.00 | 76.10 | 0.63 | 0.89 |
| The Order of Druids | 75.13 | 68.62 | 91.03 | 0.68 | 1.2 |
| British Order of Ancient Free Gardeners | 52.58 | 53.81 | 69.09 | 0.65 | 1.05 |

Source: *Seventeenth abstract of labour* [Cd. 7733], pp.258-263.

The myriad of ways in which the NHI scheme failed is well documented.⁵⁹³ One unexplored issue is how the policy affected the voluntary side of the approved societies. This is empirically challenging because NHI left few records. From a desire to maintain the independence of the societies, and to leave their administration to officials accountable to members rather than government, the state did not keep any centralised records.⁵⁹⁴ Contra Whiteside, the government actuary kept very few

⁵⁹⁰ Harris, *et al.*, ‘Sickness Insurance’, p.101.

⁵⁹¹ Gilbert, ‘The Decay’, p.563.

⁵⁹² Cordery, *British Friendly Societies*, p.159.

⁵⁹³ Whiteside, ‘Private Agencies’; Levy *National Health Insurance*; Gilbert, *The Evolution*, pp.289-447.

⁵⁹⁴ Gilbert, *The Evolution*, p.432, footnote 75.

records relating to individual societies.⁵⁹⁵ The quinquennial valuations only referred to the state side of approved societies and amalgamated all the branches of affiliated orders.⁵⁹⁶ There are even fewer records relating to both the state and voluntary side of approved societies. In his guide to the NHI law the solicitor general, Orme Clarke, noted that ‘approved societies must keep accounts of their transactions under the Act quite separate from accounts of any other business’.⁵⁹⁷ Levy noted that how the scheme had contributed to the profits of the approved societies ‘is impossible to tell, as no material on the point is available.’⁵⁹⁸

The NHI Act gave approved societies access to a large pool of individuals unwilling or unable to purchase sickness insurance without state subsidisation. In 1914 the scheme covered some 12 million British workers, and only 5 million had been insured by friendly societies beforehand.⁵⁹⁹ Societies were able to offer these members a package of additional benefits, partly through the state scheme and partly through their own contributions.⁶⁰⁰ Contemporaries criticised the life insurance and industrial assurance societies that administered the scheme for ‘profiteering’. As Beveridge noted, administering NHI gave these companies an important form of market entrance – quite literally, a foot in the door.⁶⁰¹ As individuals were compelled by law to insure themselves, companies administering the scheme were now given direct access to potential customers and their homes.⁶⁰² An agent could make a home visit in an official NHI capacity but then undertake private business, thus reducing the administrative costs to the company.⁶⁰³ Friendly society ‘cross-selling’ and ‘upselling’ has received far less attention, but it was an option open to all approved friendly societies. In December 1912 the Foresters had 610,772 purely voluntary members, up from 531,107 in 1911, an additional 566,771 state members and 398,873 members paying into both schemes.⁶⁰⁴ In 1920 the Oddfellows had 1.84

⁵⁹⁵ Whiteside, ‘Counting the Cost’, p.232.

⁵⁹⁶ *Report by the government actuary on the valuation of the assets and liabilities of Approved Societies as at 31st December 1918* (London, 1922), p.140 (National Archives, ACT 2/16).

⁵⁹⁷ O. Clarke *The National Insurance Act, 1911* (London, 1912), p.lx.

⁵⁹⁸ Levy, *National Health Insurance*, p.215.

⁵⁹⁹ Cordery, *British Friendly Societies*, p.172.

⁶⁰⁰ Gosden, *Self-help*, p.282.

⁶⁰¹ Beveridge, *Social Insurance*, p.32.

⁶⁰² M. Heller, ‘The National Insurance Act, 1911-1947: The Approved Societies and the Prudential Assurance Company’, *Twentieth Century British History*, 19, 1, (2008), p.11.

⁶⁰³ Levy, *National Health Insurance*, pp.216-7.

⁶⁰⁴ *Directory of the Ancient Order of Foresters Friendly Society for 1913*, p.658 (FHT).

members paying into both the state and the voluntary scheme for every purely voluntary member, meaning that 64.8% of all members connected to the voluntary side were also on the state side.⁶⁰⁵ The Act did not include death benefits, and sickness benefits only started on the 4th day of ill health.⁶⁰⁶ Friendly societies could fill the gap. A leaflet for state members produced by the Foresters detailed additional benefits on offer to state members. For 1p, 2p and 3p a week a member could gain additional weekly sickness benefits from the first day of sickness (of up to 7p a week) and for beyond 26 weeks, after which time a state member was moved over onto disablement benefits. Generous funeral benefits were also available for between 1p and 4p a week; a 20-year-old paying just 4p a week would receive a funeral allowance of £48.⁶⁰⁷

The downside of access to a greater quantity of members was that it became harder to screen new recruits. In the formulation of the Act the friendly societies were insistent that they should have the power to reject applicants on any grounds, except age.⁶⁰⁸ In response legislators became concerned about individuals unable to join an approved society. It was estimated that there would be 900,000 of these ‘deposit contributors’, but in 1913 there were only 320,000.⁶⁰⁹ In fact in the early years of the scheme competition for members was so intense that societies were willing to accept individuals in any physical condition. The National United Independent Order of Free Gardeners advertised that it had no physical examinations to determine eligibility.⁶¹⁰ The percentage of male NHI members not in approved societies actually fell from 3.18% in 1916 to 2% in 1930 (see **figure 5.5**). This suggests that the approved societies were not screening members with any rigor, although it is difficult to tell whether different societies were cherry picking. Once on the state books, it is plausible that a society would more readily accept an individual on the voluntary scheme to help cover the overhead costs of running the scheme. Branches received 2p per 9p of benefits distributed but this went into their approved society fund held in

⁶⁰⁵ *Directory of the Ancient Order of Foresters Friendly Society for 1920*, p.594 (FHT).

⁶⁰⁶ Clarke, *The National Insurance Act*, p.xliv; Gilbert, *The Evolution*, p.383;

⁶⁰⁷ ‘AOF, Benefits payable to male and Females for inclusive contributions’, (n.d. c.1920), (FHT, Display Item).

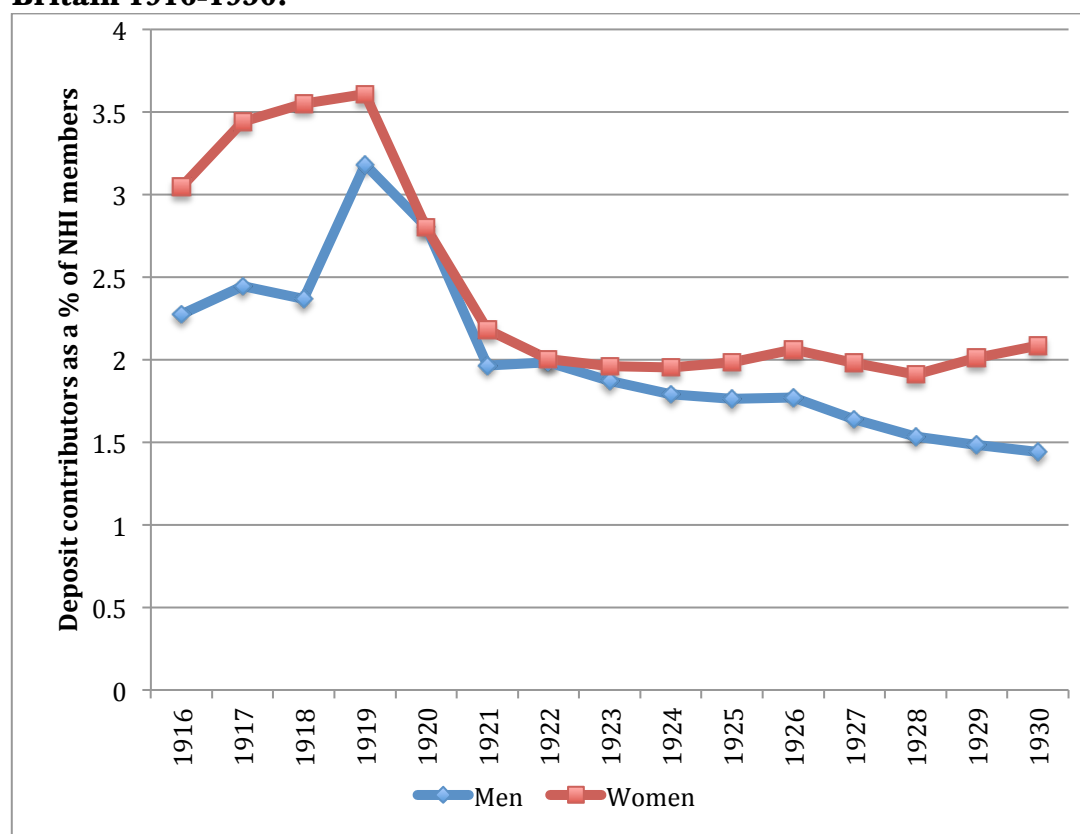
⁶⁰⁸ Gilbert, *The Evolution*, p.351.

⁶⁰⁹ *Ibid.*, p.424.

⁶¹⁰ Cordery, *British Friendly Societies*, pp.171-2.

Whitehall; administrative costs were paid for from the voluntary side of the society.⁶¹¹ It is also plausible that the sheer volume of new state members looking to join from the state side was overwhelming. These changes might have led to adverse selection and an increase in sickness claims on the voluntary side of the approved society.

Figure 5.5: Percentage of NHI members not in approved societies, Britain 1916-1930.



Source: *Twelfth annual report of the Ministry of Health, 1930-1931* [Cmd. 3937], (P.P., 1931, XIV), pp.312-313, 322-323; *Seventh annual report of the Ministry of Health, 1925-1926* [Cmd. 2724], (P.P., 1926, XI), pp.196-7, 200-201.

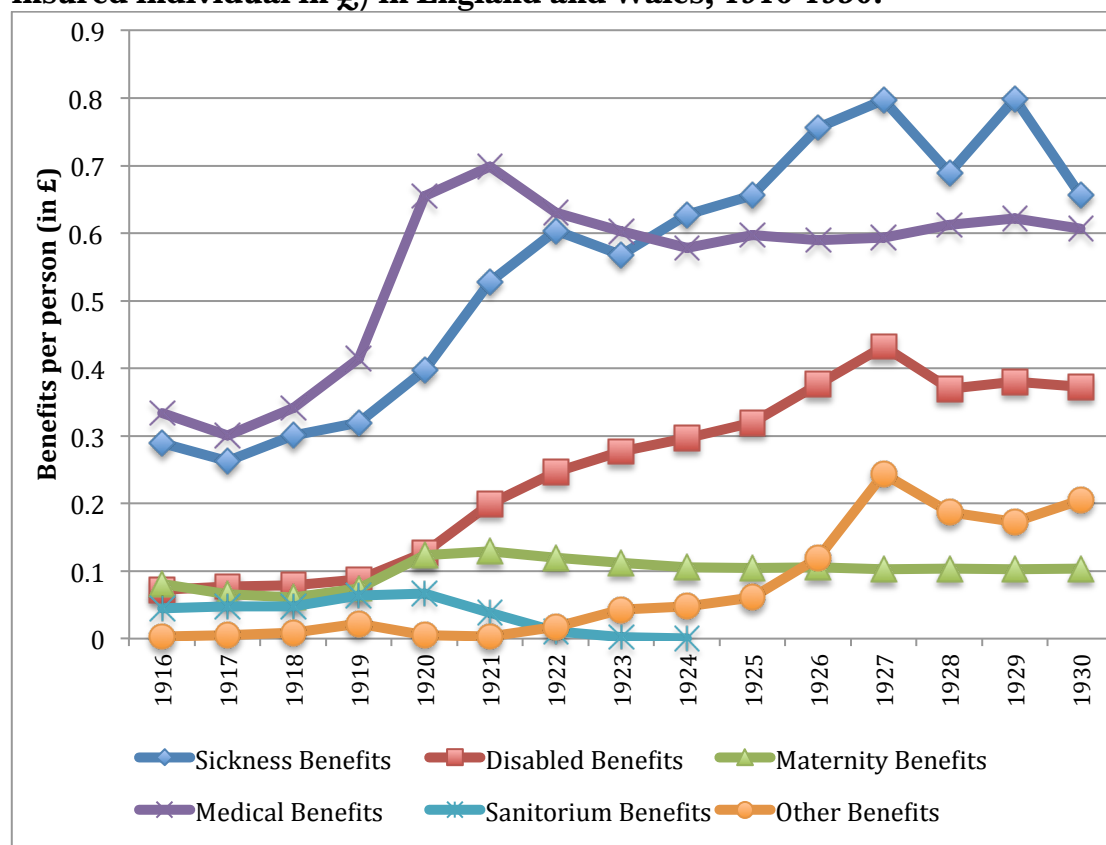
On the state scheme the total amount of sick days and the number of claims increased over the inter-war period and greatly exceeded expectations (see **figures 5.6, 5.7, 5.8 and 5.9**).⁶¹² The total number of sick days per member increased at a moderate rate but there was a much more pronounced increase in the incidence of claims. The proportion of men claiming increased from 14% in 1921 to 23% in 1927, and incidence increased within every age cohort (see **figure 5.9**). This led to the

⁶¹¹ Weinbren, *The Oddfellows*, p.153; N. Whiteside, 'Regulating Markets: the Real Costs of Poly-Centric Administration Under The National Health Insurance Scheme (1912-1946)', *Public Administration*, 75, 3, (1997), p.472.

⁶¹² Whiteside, 'Counting the Cost', pp.230, 234.

formation of a departmental committee to investigate ‘excessive’ claims.⁶¹³ The committee took the view that the excess was not because actual levels of morbidity were higher than predicted, but because of an element of impropriety in claims and a breakdown in monitoring.⁶¹⁴ A study by the government actuary in 1930 concluded that there was a ‘continuous growth in the number of persons claiming benefit, and that the increase is most pronounced, on the whole, in the claims of short duration’.⁶¹⁵ Alfred Watson also noted a high rate of recovery immediately after 26 weeks when individuals were moved onto a lower level of disablement benefits. In Watson’s view this was evidence of malingering.⁶¹⁶

Figure 5.6: The cost of benefits distributed through the NHI scheme (per insured individual in £) in England and Wales, 1916-1930.



Source: *Twelfth annual report of the Ministry of Health* [Cmd. 3937], pp.312-313, 322-323; *Seventh annual report of the Ministry of Health* [Cmd. 2724], pp.196-7, 200-201.

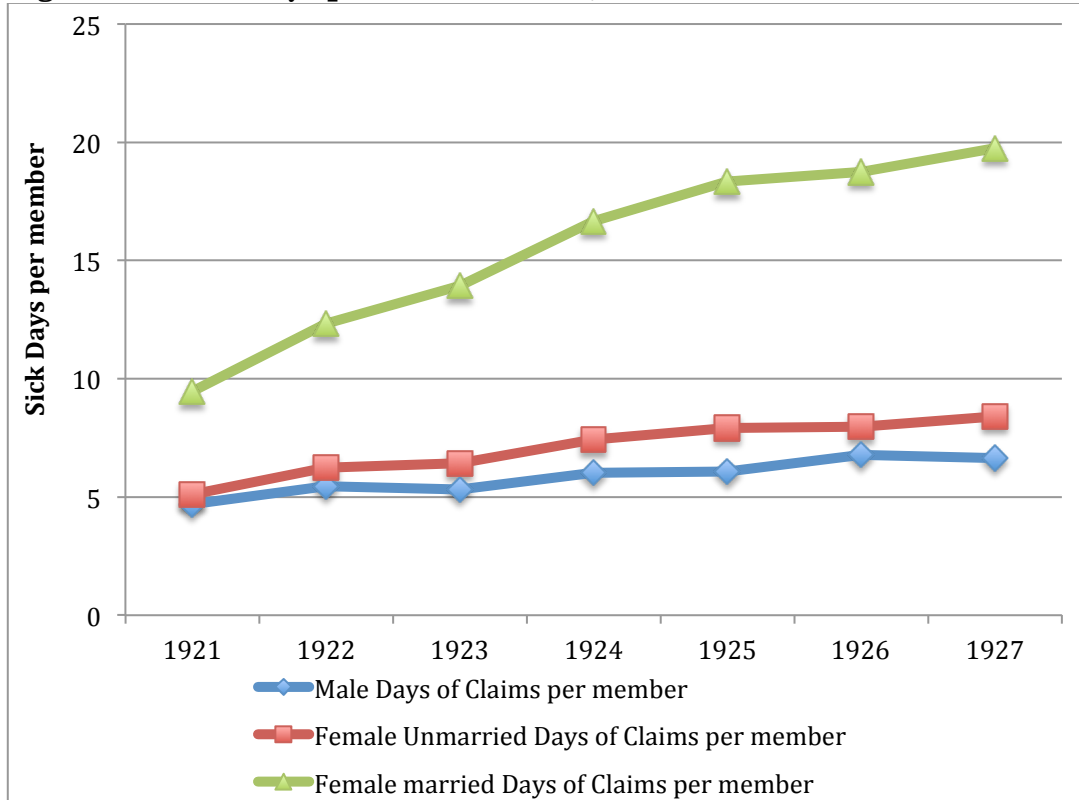
⁶¹³ C. Schuster *National Health Insurance: Report of the Departmental Committee on sickness benefit claims under the National Health Insurance Act* [Cd. 7687], (London, 1914).

⁶¹⁴ J. Gulland, ‘Excessive Sickness Claims’: Controlling Sickness and Incapacity Benefits in the early 20th Century’, Paper presented to the Social Policy Association Annual Conference, Lincoln, 2011, p.4.

⁶¹⁵ A. Watson, *National health insurance: Report by the government actuary on examination of the sickness and disablement experience of a group of approved societies in the period 1921-1927* [Cmd. 3548], (P.P, 1929-30, XVI), p.14

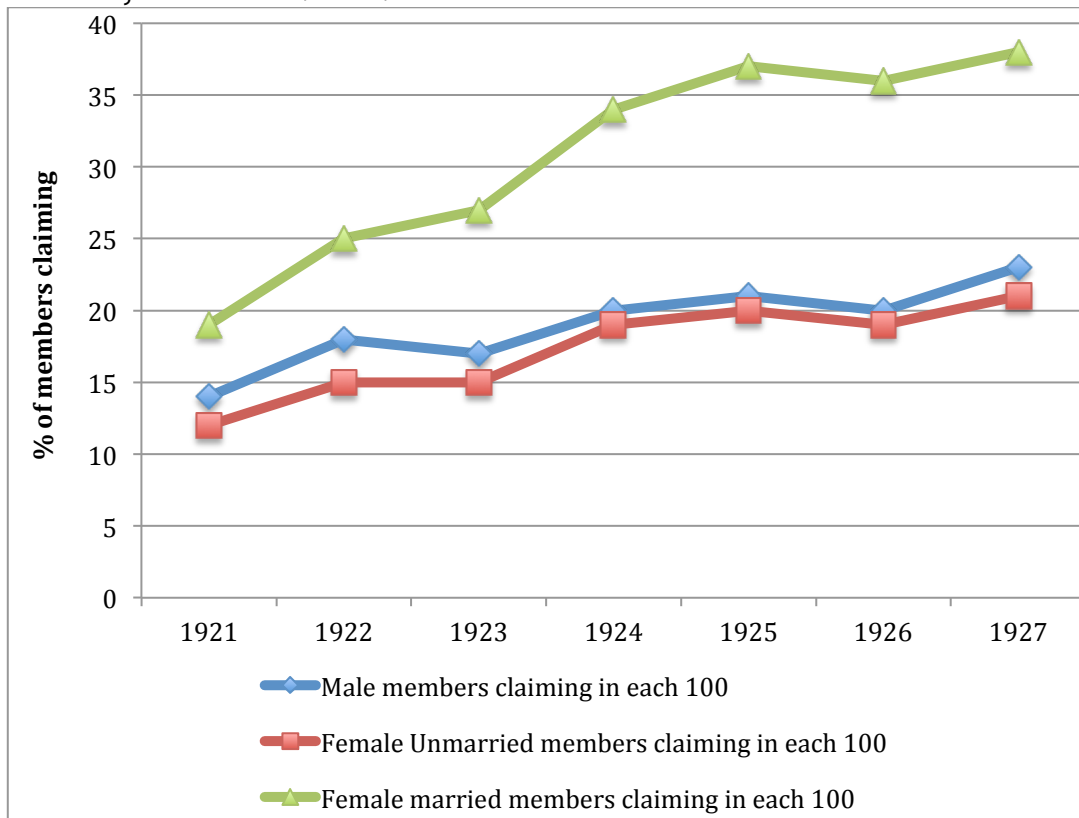
⁶¹⁶ *Ibid.*, p.15.

Figure 5.7: Sick days per NHI member, 1921-1927.



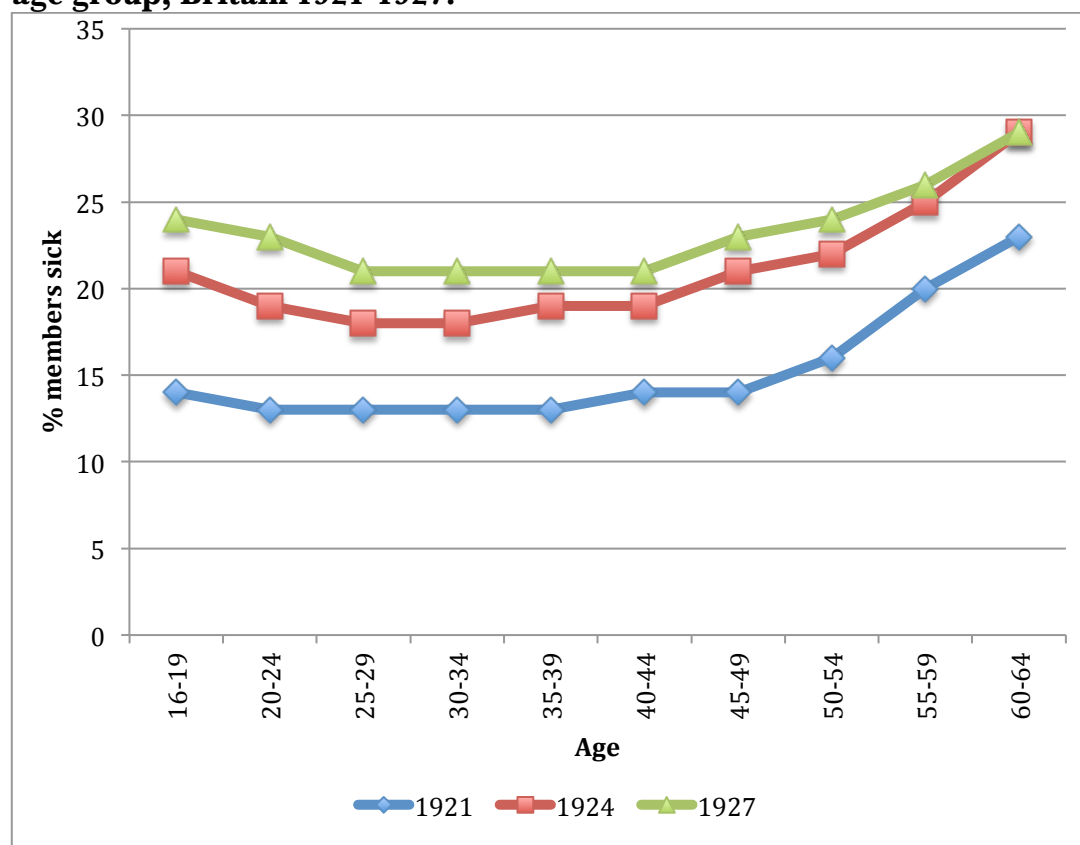
Source: *National health insurance: Report by the government actuary on an examination of the sickness and disablement experience of a group of approved societies in the period 1921-27* [Cmd. 3548], p.7.

Figure 5.8: Incidence of sickness claims per 100 members of the NHI scheme, Britain 1921-1927.



Source: *National health insurance* [Cmd. 3548], p.7.

Figure 5.9: Sickness claims per 100 male members of the NHI scheme by age group, Britain 1921-1927.



Source: *National health insurance* [Cmd. 3548], pp.10-11.

Dan Weinbren has argued that branches were crippled by the administrative burden of the NHI scheme; every branch had to keep track of nine account books, 21 categories of insured people, and 22 items of information for each of them. Secretaries then sent these books to the Ministry of Health for proof of income and expenditure, which credited the societies twice yearly. This was after an audit of the accounts and checks for improper expenditure.⁶¹⁷ In 1913 the *Oddfellows' Magazine* complained that it was a 'complex system designed to create unnecessary work and for Insurance Commissioners to bind in red tape the officials of the approved societies, who are helpless parts of the departmental machine'.⁶¹⁸ For Burrows, the administration of the scheme added considerably 'to the work of secretaries and this, together with the higher standard of efficiency demanded, inevitably led to the resignation of many secretaries who had been able to carry on under the relative

⁶¹⁷ Weinbren, *The Oddfellows*, p.147.

⁶¹⁸ *Ibid.*, p.147.

simplicity of the old regime'.⁶¹⁹ Winifred Felgate recalled that the workload was so intense her father, a lodge secretary in Norfolk in the early 1930s, had to build a wooden shed in the garden to house all the administrative records and insurance cards.⁶²⁰ To make matters worse branches had to bear the administration costs of approved society status, and many felt it necessary to pay for secretarial work.⁶²¹ The traditional spirit of self-governance was being eroded. In the early 1940s Mass Observation recorded one old member saying:

‘The government’s cut out all the friendliness... Meetings? Cor, no!
We don’t have none of them now!’⁶²²

In 1913 the Grand Master of the Oddfellows complained that the administrative complexity of the NHI scheme was affecting claims.⁶²³ With officers overburdened and members increasingly disinterested in the governance of branches, the traditional monitoring system was breaking down. A year prior the *Oddfellows’ Magazine* lamented the extinction of the old fashioned ‘sympathetic visitor’ who went to the house of an afflicted brother ‘not only with the benefits which the sick member has contributed for, but also with a word of cheer and comfort from his brothers in the order’. This was in contrast to visitors after the scheme that ‘rushes around on Friday night or Saturday, hands the money in... takes a receipt for the benefit and is gone.’⁶²⁴ To verify claims on the state scheme approved societies could call on regional medical officers. These were medically qualified government officials who would provide a second opinion for a fee. **Figures 5.10** and **5.11** show that the friendly societies only rarely made use of these officers in comparison to the national average and the industrial insurance companies, suggesting that monitoring was more relaxed.

Many have argued that the Act undermined the traditional spirit of the friendly society movement. In the words of Bentley Gilbert ‘The NHI Act was conceived as a means of promoting and extending the friendly society principles by

⁶¹⁹ V.A. Burrows ‘On Friendly Societies Since the Advent of National Health Insurance’, *Journal of the Institute of Actuaries*, 63, 3, (1932), p.321.

⁶²⁰ Weinbren, *The Oddfellows*, p.149.

⁶²¹ *Ibid.*, pp.148-9.

⁶²² Whiteside, ‘Social Protection’, p.10.

⁶²³ Weinbren, *The Oddfellows*, p.148.

⁶²⁴ *Ibid.*, p.165.

encouraging wider participation [but] the result was to destroy the fraternal aspects of even the strongest friendly society and turn them into semi-official agencies whose only reason for existence was the administration of the Act'.⁶²⁵ Weinbren has argued that in response the societies had to deal with more illness prior than to the Act partly because 'malingering' became acceptable.⁶²⁶ In 1932 Burrows argued that the Act led to a huge increase in individuals who saw membership 'solely in the light of an insurance contract; their interest in their society as a club was a minimum and the majority never attended their lodge meetings'.⁶²⁷ For Burrows the 'greater tendency to regard... membership as equivalent merely a contract of insurance...led to a greater readiness to claim', as evidenced by the increase in shorter duration claims, particularly at younger ages.⁶²⁸

The NHI scheme could have increased claims in a more direct way: by increasing the amount of benefits on offer. A large number of state members also purchased additional voluntary cover, in particular additional benefits from the first day of illness and after 26 weeks. This created a potential 'sick pay' moral hazard because state members could double up on insurance.⁶²⁹ As mentioned, Alfred Watson's study of a large number of claims between 1921 and 1927 revealed that short-term claims had increased markedly and that individuals had a tendency to recover quickly once they had moved over onto disablement benefits (after 26 weeks). It was these two phases of ill health that the friendly societies targeted, and it is plausible that they were adversely affected by a high number of short claims and claims after 26 weeks on the state scheme.

⁶²⁵ Gilbert, 'The British National Insurance Act', pp.147-8.

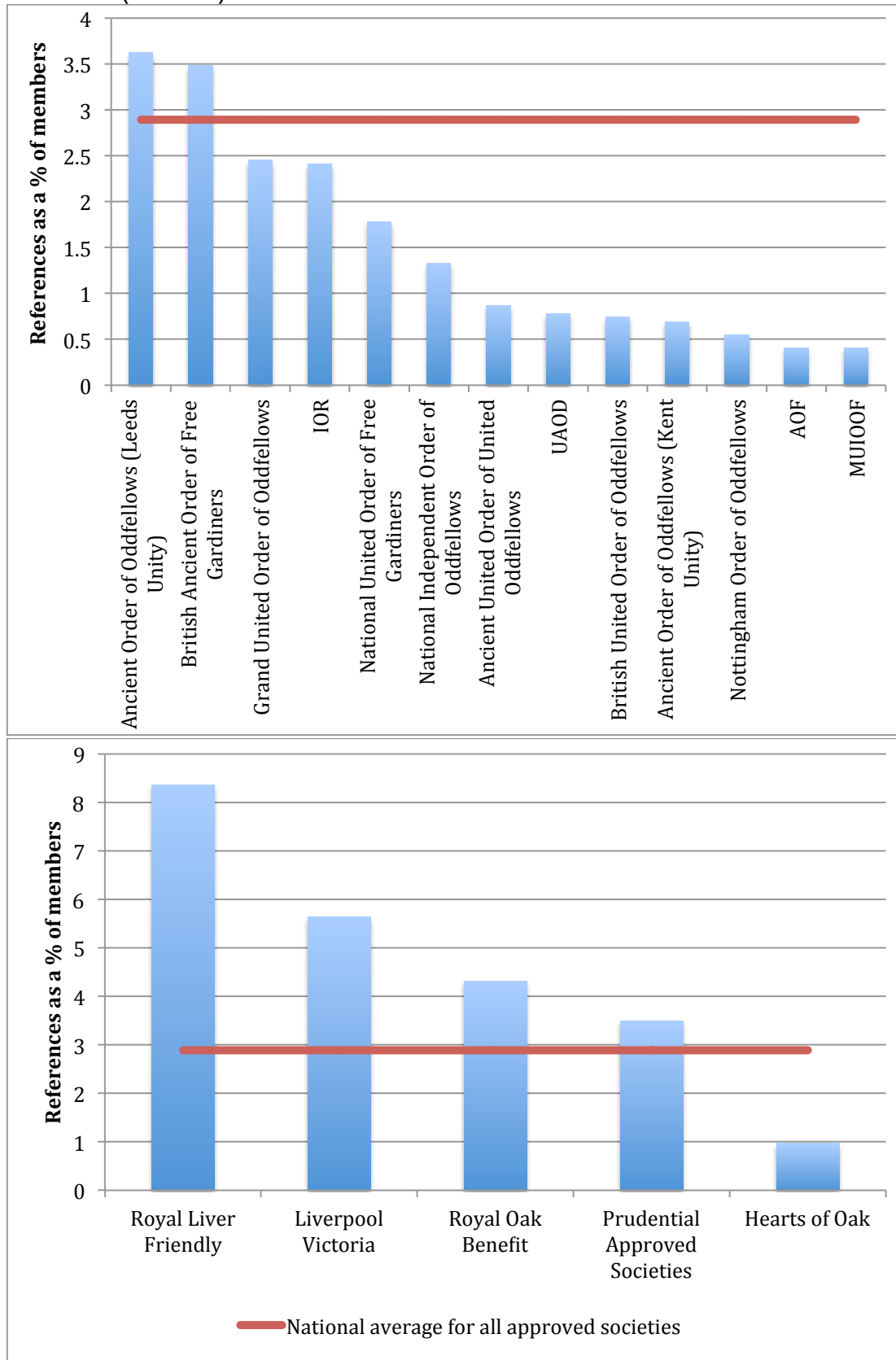
⁶²⁶ Weinbren, *The Oddfellows*, p.157.

⁶²⁷ Burrows, 'On Friendly Societies', p.320.

⁶²⁸ *Ibid.*, pp.336, 371.

⁶²⁹ Whiteside, 'Counting the Cost', p.237.

Figures 5.10 and 5.11: References to regional medical officers as a percentage of NHI members; select friendly societies (top) and collecting societies (bottom) – Britain 1929.



Source: 'Approved societies Administration: Sickness Experience Returns of references to Regional Medical Officers for each society in 1929', Internal Memorandum (National Archives, PIN 4/28).

‘Dual’ claims on the state and voluntary side of a society created administrative problems. Gilbert noted that competition for state members was so intense that approved societies were reluctant to refuse claims.⁶³⁰ But a society could not accept the validity of an overlapping claim on the state funds without approving a claim from the voluntary funds. Obviously the reverse was true as well. A society could not claim that the first four days was invalid but that it was valid after the fourth day when the state benefits kicked in. Moreover rejecting claims was hard. Disputes were sent to the insurance commissioners. These bodies were critical of ‘hearsay’ and tended to side with panel doctors.⁶³¹ Friendly society relied on members monitoring each other, and as such ‘hearsay’ was often a pivotal form of evidence. If doctors sanctioned a state claim it was very hard to overturn it, even if it affected the voluntary side of the branch.

As discussed, this thesis focuses on the sickness insurance side of the friendly society movement and limited space has been dedicated to the role of medical services. However the NHI scheme changed the role of primary care in Britain and this played a role in the increase in morbidity rates. A number of historians have argued that the set up of the NHI scheme meant doctors started to approve a higher number of claims. Traditionally doctors had been contracted to a particular branch for an annual fee and were responsible for certifying claims. Under the Act doctors on regional panels were paid per approved society patient. This encouraged doctors to recruit the maximum number of panel patients and to spend the minimum time treating them.⁶³² Physicians were disconnected from the societies that paid the claims, so they effectively had a blank cheque and according to Gilbert doctors that refused claims gained a reputation and lost business.⁶³³ These dynamics contributed to an increase in morbidity rates. More recently Anne Digby has argued the capitation and panel system led to an increase in attendance but also a cost-cutting regime of high patient throughput and poor service.⁶³⁴

⁶³⁰ Gilbert, *The Evolution*, p.431.

⁶³¹ Gulland, ‘Excessive Sickness’, p.11.

⁶³² Weinbren, *The Oddfellows*, pp.154-55.

⁶³³ Gilbert, *The Evolution*, p.430.

⁶³⁴ A. Digby, *The Evolution of British General Practice* (Oxford,1999), pp.312, 316, 322.

Most historians have painted a pessimistic picture of the impact of the Act. Yet there is evidence that the friendly societies adapted well. Weinbren may have exaggerated the administrative complexity of the NHI scheme. In 1923 only 2% of ‘approved’ friendly society branches had defects in their accounts of any type, suggesting that societies had adjusted with little difficulty.⁶³⁵ It is plausible that monitoring and social cohesion broke down, but there is little concrete evidence. The minute books of the Loyal Wellington lodge of the Oddfellows in Chester show that the lodge was monitoring claims long after the Act.⁶³⁶ It seems that politicians and officials were more concerned about moral hazard than the members. As part of the departmental inquiry into sickness claims a sample of branches were asked ‘Are you of the opinion that many claims are being made for State sick pay by reason of the fact that the total sickness benefit received by members for the voluntary and State funds closely approaches the earnings of members whilst at work?’ In total 288 said no and 57 said yes. When asked ‘Have you observed any evidence of unwillingness on the part of State insured members to return to work when fit for it, falling short of deliberate malingering?’ To this question 306 said no and 47 yes.⁶³⁷ Over 95% of branches said that sick members were visited every week, suggesting that monitoring mechanisms were robust. The notion that the Act had stripped the soul out of the friendly society movement should also be treated with caution, given that coteremporaries were voicing the same complaints long before the Act (see chapter 4).

The NHI scheme also had the potential to increase the wealth of the friendly societies. Through some complex accounting practices approved friendly societies ended up improving their asset/liability ratio. The government was committed to flat contributions regardless of age. Obviously older members were at a greater risk of claiming, so to ensure that the scheme was actuarially sound each approved society needed a sufficient stock of capital.⁶³⁸ Depending on the age profile of its members an approved society was furnished with a capital reserve, and magically became solvent (although the NHI scheme as a whole was £66,000,000 in debt). This diversion was fiscally neutral because contributions greatly exceeded the predicted expenditure. In

⁶³⁵ *Report of the Royal Commission on National Health Insurance* [Cmd. 2596], (P.P., 1926, XIV), p.269.

⁶³⁶ ‘Minute Books of the Loyal Wellington, Chester, 1913-1929’ (Minute Book Chester -1913-1929, parts 1-4).

⁶³⁷ *National Health Insurance: Appendix to the report of the Departmental Committee on Sickness Benefit Claims under the National Insurance Act, Volume I* [Cd. 7688, 7689, 7690, 7691], (P.P., 1914-1916, XXX-XXXI), p.496.

⁶³⁸ Levy, *National Health Insurance*, p.9.

short young members ended up paying sufficiently high contributions to pay for their own benefits and to replenish the reserves of older members.⁶³⁹ This was good for the friendly societies because any member that moved over to the state scheme was furnished with a new reserve, which freed up the existing reserve that had been built up by the society. The Act thus increased the capital reserves of the friendly societies by around £10 million, allowing them to hold down contributions and increase benefits.⁶⁴⁰ The scheme also had the potential to increase revenue if societies could attract state members onto the voluntary side of branches. Although the effect would have been cancelled out if state members claimed large sums in benefits and administrative overheads were too high.

Table 5.2: Growth of different categories of friendly society in Britain, 1910-1928.

| | 1910 | 1928 | % Change |
|-------------------------|----------------------------|----------------|---------------|
| Type of society | Number of members | | |
| Affiliated | 2782953 | 3048087 | 9.53 |
| Local | 1277185 | 1145389 | -10.32 |
| Deposit | 381491 | 1377954 | 261.20 |
| Death and Burial | 855962 | 231861 | -72.91 |
| | Members per society | | |
| Affiliated | 135.2 | 164.9 | 21.91 |
| Local | 409.7 | 1028.2 | 150.93 |
| Deposit | 4709.8 | 14060.8 | 198.54 |
| Death and Burial | 2134.6 | 837.0 | -60.79 |
| | Funds per member | | |
| Affiliated | 10.0 | 14.9 | 48.45 |
| Local | 10.3 | 20.2 | 97.08 |
| Deposit | 9.2 | 12.3 | 34.10 |
| Death and Burial | 2.2 | 4.9 | 124.26 |

Source: Burrows 'On Friendly Societies', p.309.

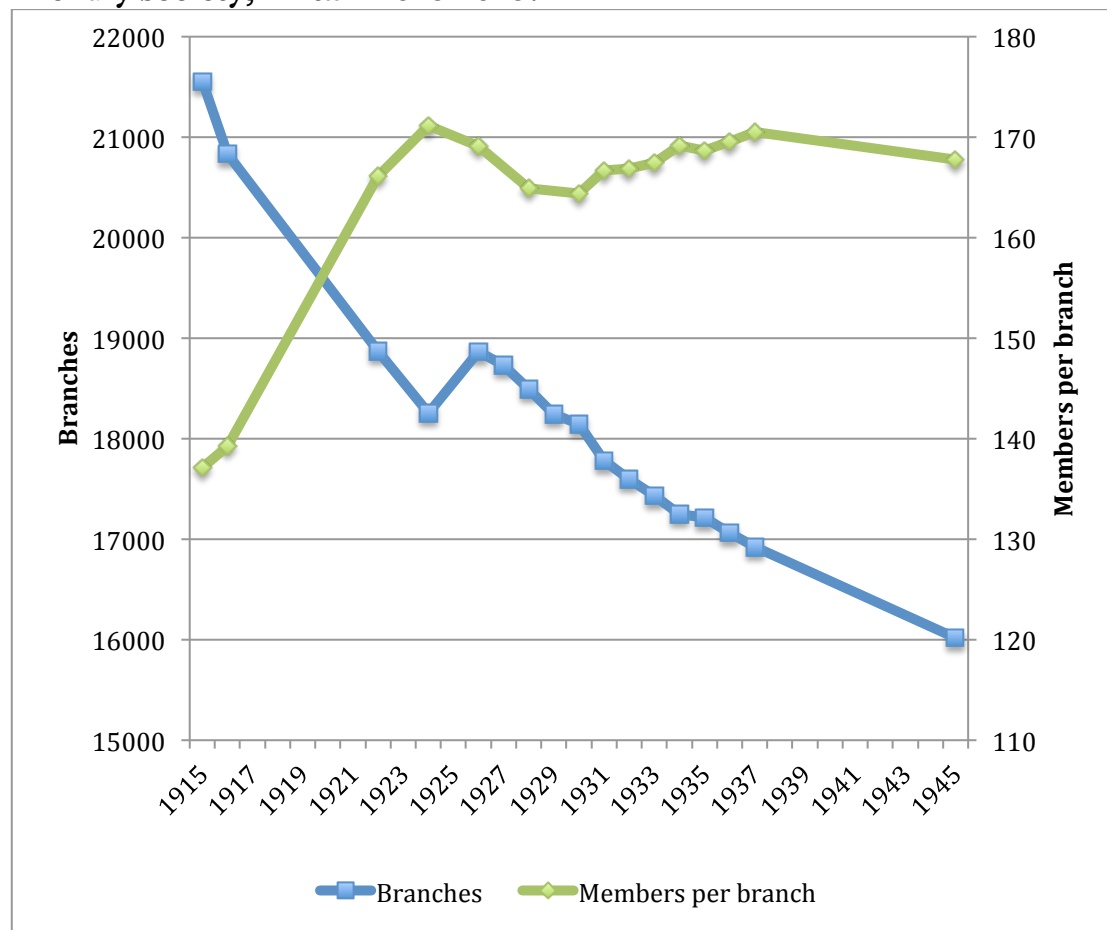
Finally, some have suggested that the Act forced some branches and societies to close or amalgamate, leading to conglomeration in the friendly society movement. As **table 5.2** shows, between 1910 and 1928 local societies were the big losers whilst deposit and collecting societies were the big winners. Weinbren has argued only large

⁶³⁹ Gilbert, *The Evolution*, pp.348-9.

⁶⁴⁰ Levy, *National Health Insurance*, p.10; Gilbert, *The Evolution*, p.377.

branches of the affiliated societies could administer the scheme cost effectively. In the run up to the Act many were deemed too small and were reformed. In total 133 new Foresters courts were formed by amalgamation in order to gain approved society status. In 1915 the Oddfellows asked lodges with fewer than 100 members to merge with nearby lodges.⁶⁴¹ Across the friendly society movement between 1915 and 1945 the number of individual voluntary branches and societies fell from over 29,000 to 21,000, and the average number of members per branch also increased (see **figure 5.12** and **table 5.2**)⁶⁴² There was also a huge reduction in the number of approved societies between 1912 and 1940.⁶⁴³ The concentration of members in larger branches exaggerated the decline in sociability.⁶⁴⁴

Figure 5.12: Number of branches and members per branch of all types of friendly society, Britain 1915-1945.



Source: B. Harris, *The Origins*, p.194.

⁶⁴¹ Weinbren, *The Oddfellows*, p.146.

⁶⁴² Harris, *The Origins*, p.193.

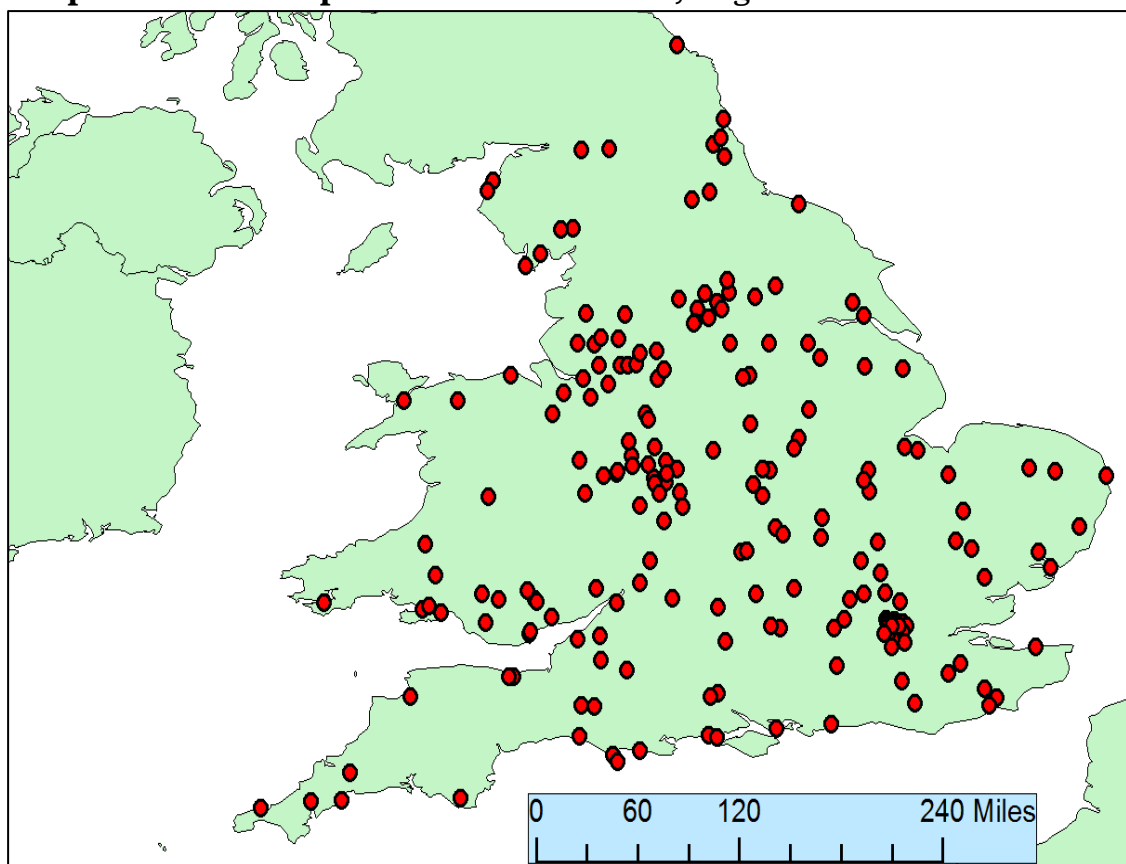
⁶⁴³ Levy, *National Health Insurance*, p.222.

⁶⁴⁴ Weinbren, *The Oddfellows*, p.146.

Section 2: The impact of NHI on the Foresters

The Foresters were one of largest friendly societies in Britain and became heavily involved in the administration of the 1911 Act. It is necessary to focus on a single society because the NHI scheme left so few records. The Foresters were one of the few organisations that consistently recorded information on voluntary and state members. The directories of the Foresters are a particularly rich source. They were published annually and listed every branch in operation. For each court the directories recorded the address, year of foundation, frequency of meeting, number of voluntary members, the average age of the members, total worth of court funds, total days sickness in the year, initiations, deaths, withdrawals and the date of last valuation. Critically they also recorded the number of members on the state scheme and the number paying into both voluntary and state schemes. The directories of the Oddfellows were similar but did not include information on the number of state members until 1933. Using the Foresters directories I constructed a panel data set of 200 randomly selected courts (see **figure 5.13**). The sampling procedure involved randomly generating court numbers (assigned by the Foresters at the time) and tracking these courts through successive directories.

Figure 5.13: Geographical distribution of Foresters courts used in sample to test the impact of the NHI scheme, England 1909-1922.



Source: *Directory of the Ancient Order of Foresters Friendly Society for 1909 and 1910-1930 (FHT)*.

The NHI scheme barely had time to get going before the outbreak of the First World War. The first benefits were paid in January 1913 meaning there is only a year's worth of data before the war.⁶⁴⁵ Friendly societies profited from the war in the sense that a large number of young members died, and therefore left their accumulated contributions behind.⁶⁴⁶ On the other hand this would have meant an increase in the average age of the membership. The war also put a strain on the human resources on which societies could call, leading to a shortage of personnel to collect contributions and monitor claims.⁶⁴⁷ Moreover those members fortunate enough to return from the war undoubtedly experienced higher levels of morbidity.⁶⁴⁸ The years between 1914 and 1919 were dropped from the panel because it is

⁶⁴⁵ Gilbert, *The Evolution*, p.401.

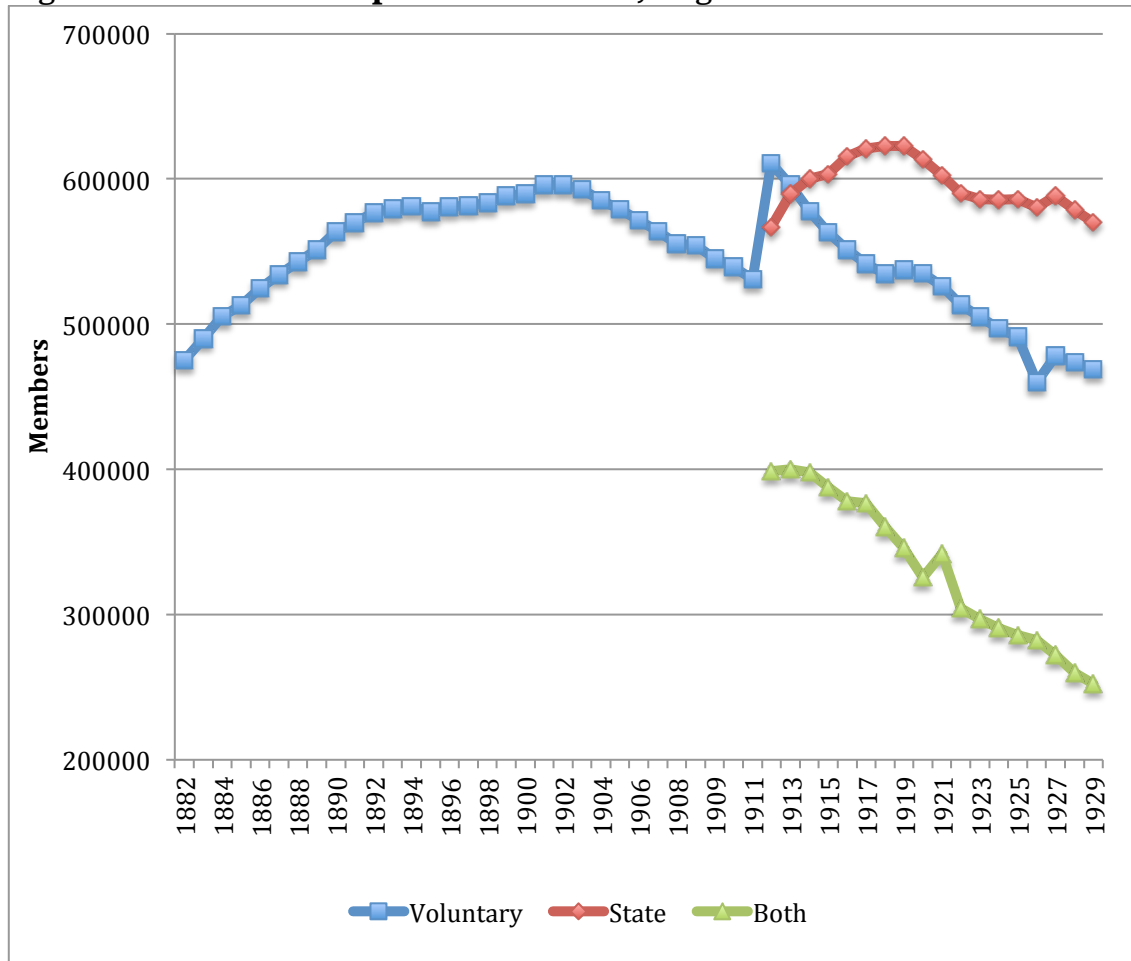
⁶⁴⁶ Gilbert, *British Social Policy*, pp.264-265; Finlayson, *Citizen*, pp.202-208.

⁶⁴⁷ Finlayson, *Citizen*, p.205; The following directories were used, *Directory of the Ancient Order of Foresters Friendly Society for 1909 and 1910, 1911, 1912, 1913, 1918, 1919, 1920, 1921, 1922* (all in the FHT).

⁶⁴⁸ *Friendly Societies: Report of the Registrar for New Zealand for the Year 1915*, in AJHR, Session I, section H-01 (1916), p.8; *Friendly Societies: Report of the Registrar for New Zealand for the Year 1917*, in AJHR, Session I-II, section H-01, (1918), p.9.

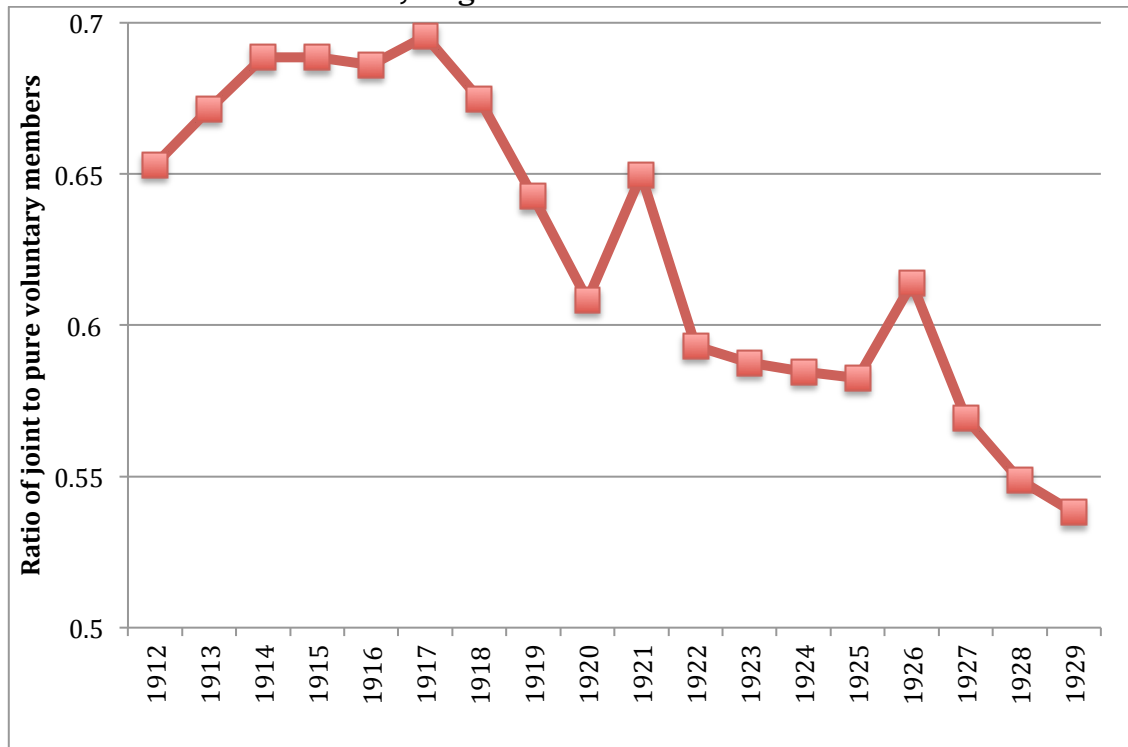
impossible to separate out the impact of the NHI scheme and the broader impact of the war.

Figure 5.14: Membership of the Foresters, England 1909-1929.



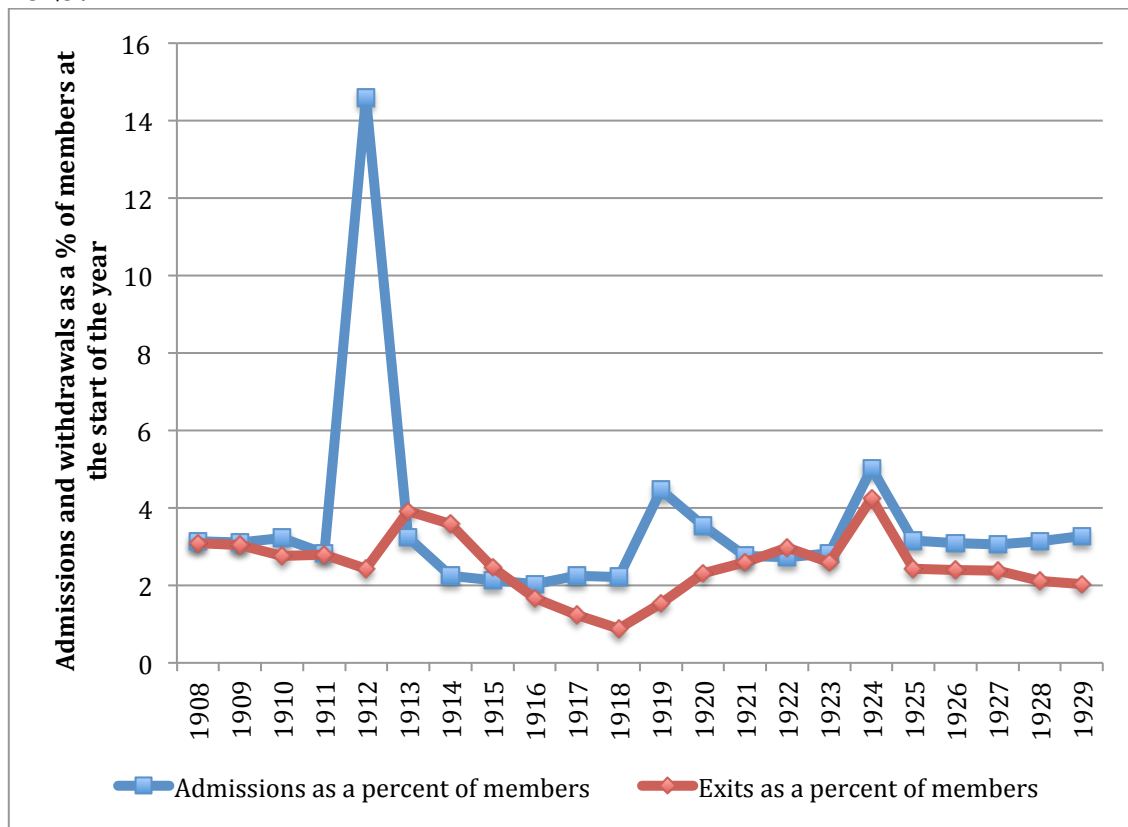
Source: *Directory of the Ancient Order of Foresters Friendly Society for 1909 and 1910-1930 (FHT)*.

Figure 5.15: Ratio of state and voluntary members to pure voluntary members in the Foresters, England 1912-1929.



Source: *Directory of the Ancient Order of Foresters Friendly Society for 1909 and 1910-1930 (FHT)*.

Figure 5.16: Admissions and withdrawals from the Foresters over the year as a percentage of members at the start of the year, England 1908-1929.



Source: *Directory of the Ancient Order of Foresters Friendly Society for 1909 and 1910-1930 (FHT)*.

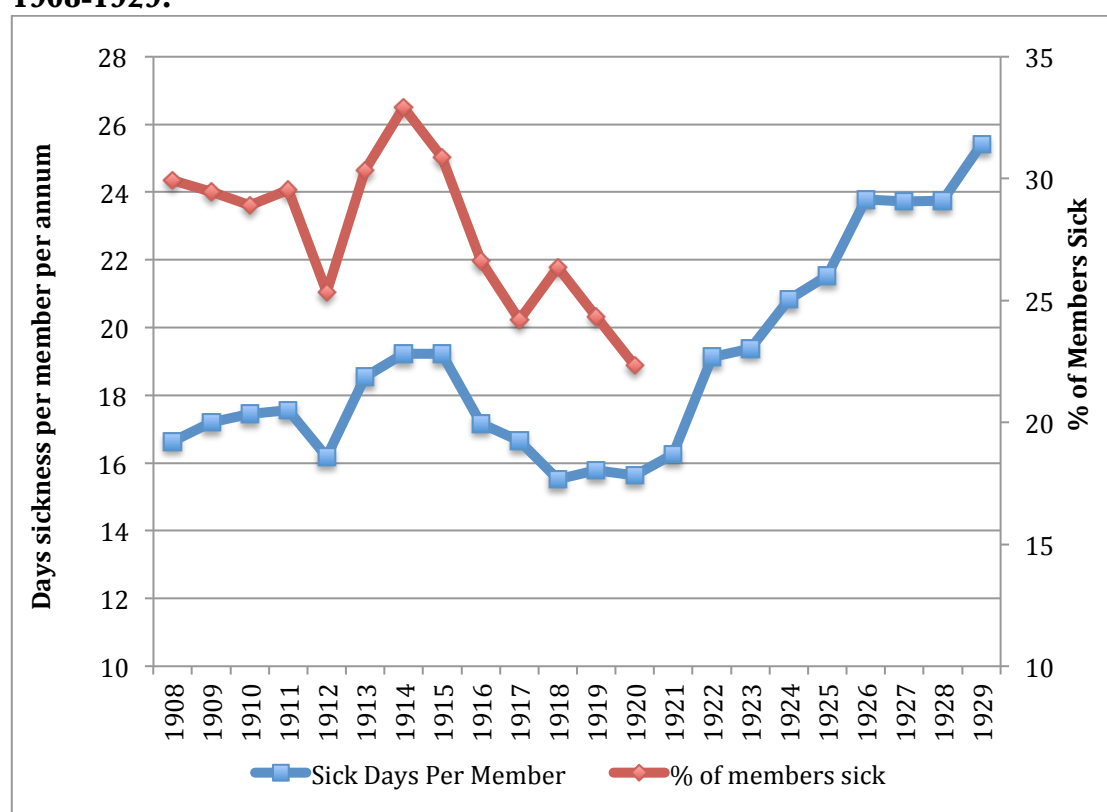
At the aggregate level the Foresters do not seem to have suffered greatly because of the scheme. The raw number of voluntary members fell between 1911 and 1925 but this decline had set in from 1902 and the Act actually gave the organisation a huge number of state members that also joined the voluntary side (see **figure 5.14**). Although the number of members paying into both state and voluntary schemes steadily declined after 1913 (see **figure 5.15**). Admissions and withdrawals were fairly flat from 1909 to 1925, aside from a huge spike in new members in 1912 because of the NHI scheme (see **figure 5.16**). In the sample of courts the Act has a moderate impact on recruitment. The mean number of initiations per member per annum increased from 0.0307 before the Act to 0.0489 afterwards.⁶⁴⁹

What was the impact of the scheme on sickness claims? In the sample of Foresters courts the average number of sick days per member actually fell from 17.47 before the Act to 17.03 after.⁶⁵⁰ The difference is not statistically significant, reflecting the high levels of variance in sickness rates (both between courts and year-on-year). The experience of the entire Foresters is also ambiguous. The directories stopped recording the number of members receiving sick pay in 1920 but there was a clear decline in incidence from 1914 (see **figure 5.17**). The spike in the percentage of members claiming between 1912 and 1914 suggests that the Act did lead to a brief surge in claims. However with so few data points it is hard to be sure. The other noticeable trend is the sharp increase in the number of sick days per member from 1921. It seems unlikely that this was merely a consequence of the scheme, given that claims were fairly flat from 1912 to 1920. The increase probably reflected the gradual fall in number of members in the society (reducing the size of the denominator) and the fact that young members were most likely to secede, meaning that those that remained in the society were more likely to claim.

⁶⁴⁹ Statistically significant at the 1% level.

⁶⁵⁰ Although the difference is statistically insignificant.

Figure 5.17: Aggregate morbidity experience in the Foresters, England 1908-1929.



Source: *Directory of the Ancient Order of Foresters Friendly Society for 1909 and 1910-1930 (FHT)*.

The directories allow us to construct a series of regressions using sick days per member as the dependent variable (see **tables 5.3-5.5**). The models have the same basic structure as those used in chapter 2 and include a number of similar controls. Both models in **table 5.5** use year dummies and fixed effects to control for year specific and court specific factors influencing morbidity. Unfortunately the Foresters directories only recorded the average age of members, meaning these results are less robust than those in chapter 2. Court age and frequency of meeting are proxies for how experienced and well-governed courts were. Branch size gauges whether there were diseconomies of scale, as argued in chapter 2. Chapter 2 also argued that that an increase in the wealth of a branch was associated with an increase in morbidity. Hence capital per member has been included as a control. We would expect an increase in initiations in the prior year to have had a negative effect on claims given that new members tended to be younger than existing members. A high rate of secession might have been associated with an increase in claims if, as shown in chapter 1, young members were disproportionately more likely to exit.

Table 5.3: Variables included in regressions to test the impact of the NHI scheme on a sample of courts of the Foresters, England 1909-1922.

| Variable Name | Description |
|-----------------------|--|
| Sickness PM | Annual number of days sickness per member |
| Av. Age | Average age of members of court |
| Court Age | Age of court |
| Freq | Number of meetings per month |
| Capital PM | Total funds of the courts divided by voluntary members |
| Capital | Total funds of the courts |
| Interest | Interest on capital |
| Years Since Valuation | Years since the last valuation |
| Exits PM | Number of withdrawals over year per member at the start of the year |
| Initiations PM | Number of initiations to the voluntary side over the year per existing member |
| Total Size | Number of voluntary members plus number of state members plus members paying into both schemes |
| Voluntary Size | Number of voluntary members |
| Per cent Vol on State | Percentage of all voluntary members on state |

Table 5.4: Descriptive statistics of variables included in regression analysis.

| Variable | Mean | Standard Deviation |
|-----------------------|-------------|---------------------------|
| Sickness PM | 17.24 | 11.84 |
| Av. Age | 42.93 | 7.96 |
| Court Age | 54.32 | 18.79 |
| Freq | 1.33 | 0.47 |
| Capital PM | 12.18 | 8.02 |
| Capital | 2086.70 | 2064.85 |
| Interest | 3.96 | 0.70 |
| Years Since Valuation | 5.79 | 2.85 |
| Exits PM | 0.03 | 0.05 |
| Initiations PM | 0.04 | 0.06 |
| Total Size | 324.22 | 334.46 |
| Voluntary Size | 172.07 | 136.22 |
| Ratio of State to Vol | 0.818 | 1.055 |
| Per cent Vol on State | 29.95 | 35.12 |

After the introduction of the scheme not all courts took on approved society status, which is convenient for statistical purposes as it means we can compare (a) the experience of courts before and after they became approved societies, and (b) the experience of approved and non-approved courts. In regressions 1 and 2 the main independent variables of interest are dummies taking the value of 1 if the court had any members in the NHI scheme. Regression 2 is restricted to 1913, 1920, 1921 and

1922. It is difficult separate the impact of the NHI scheme from broader, court-level, yearly, and regional forces. Hence court fixed effects and year dummies have been included as further controls.

Table 5.5: Regressions testing the impact of the NHI scheme on sick days per member in a sample of Foresters courts, England 1909-1922 (regressions 1-2).

| Regression Number | 1 | 2 |
|--------------------------|----------------------------|-----------------------|
| Dates | 1910-1913 and 1919-1922 | 1913 and 1919-1922 |
| Dependent Variable | Days Sickness PM | Days Sickness PM |
| Model | Fixed Effect | Fixed Effect |
| Heteroskedasticity | Robust | Robust |
| N | 1366 | 762 |
| Constant | 9.84* (1.70) | 3.39 (0.50) |
| Av. Age | 0.183834*** (2.37) | 0.06432 (0.80) |
| Court Age | -0.0214277 (-0.20) | 0.0595353 (0.43) |
| Freq | -0.7225851 (-1.12) | 0.1910667 (0.18) |
| Capital PM (t-1) | 0.2913429* (1.57) | 0.499946*** (1.83) |
| Interest (t-1) | -0.2287178 (-0.29) | 0.3857254 (0.41) |
| Initiations PM (t-1) | -4.129184 (-0.63) | -5.557522 (-0.64) |
| Exits PM (t-1) | -6.122441 (-1.25) | -7.893 (-0.75) |
| Total Size | 0.0004139 (0.27) | -0.0021412 (-0.62) |
| In NHI scheme | -0.1622176 (-0.10) | 1.11652 (-0.56) |
| Fixed effects | Yes | Yes |
| Year dummies | Yes | Yes |
| Adj R ² | 0.1731 | 0.1218 |
| F | 2.78*** | 2.41*** |

Note: Coefficients with *t* statistics in parenthesis. * denotes significant at the 10% level, ** denotes significant at the 5% level, *** denotes significant at the 1% level. *Source:* *Directory of the Ancient Order of Foresters Friendly Society for 1909 and 1910-1930 (FHT)*.

Table 5.6: 95% confidence intervals for regressions 1-2.

| Regression | Dependent variable | Independent variable | 2.5% | 97.5% |
|-------------------|---------------------------|-----------------------------|-------------|--------------|
| 1 | Sickness Per Member | In NHI scheme | -3.263 | 2.939 |
| 2 | Sickness Per Member | In NHI scheme | -2.817 | 5.050 |

In regressions 1 and 2 the coefficients on the NHI dummy are insignificant (see **table 5.5**). As discussed, all the following models are based on a data set of randomly sampled courts. It is therefore important to pay close attention to the 95% confidence intervals, which indicate the plausible magnitude of the sampling error. Regressions 1 and 2 estimate that the upper bound effect of the scheme was to increase the number of sick days per member by 2.9 and 5.0 days per member per annum (see **table 5.6**). The lower bound was a reduction in sick days of 3.0 days per annum.

Regressions 1 and 2 effectively test the impact of a court's participation in the NHI scheme relative to those that did not sign up. In **table 5.7** the main independent variable of interest is 'Per cent Vol on State' – which measures the proportion of all voluntary members also in the state scheme. Again the dependent variable is the number of sick days per member, which has been converted into logarithms in regression 5. The models in **table 5.5** are particularly rigorous because they use fixed effects and year dummies. Regressions 3 and 4 test whether a statistically significant impact can be identified when using non-lagged variables and the less demanding OLS method.

All of the models are jointly significant and the signs on the control variables are as expected. Even in these OLS models the impact of an increase in the number of all voluntary members on the state scheme was marginal and insignificant. Proving a negative is impossible, and identifying a small impact is particularly statistically challenging. A statistically insignificant coefficient should not be taken of evidence that a variable had no impact. However these results do mean that we fail to reject the null hypothesis that the scheme had no impact. **Figure 5.18** shows that across the period, claims rates and the proportion of voluntary members on the state scheme were very weakly correlated. It is noticeable that the distribution of claims

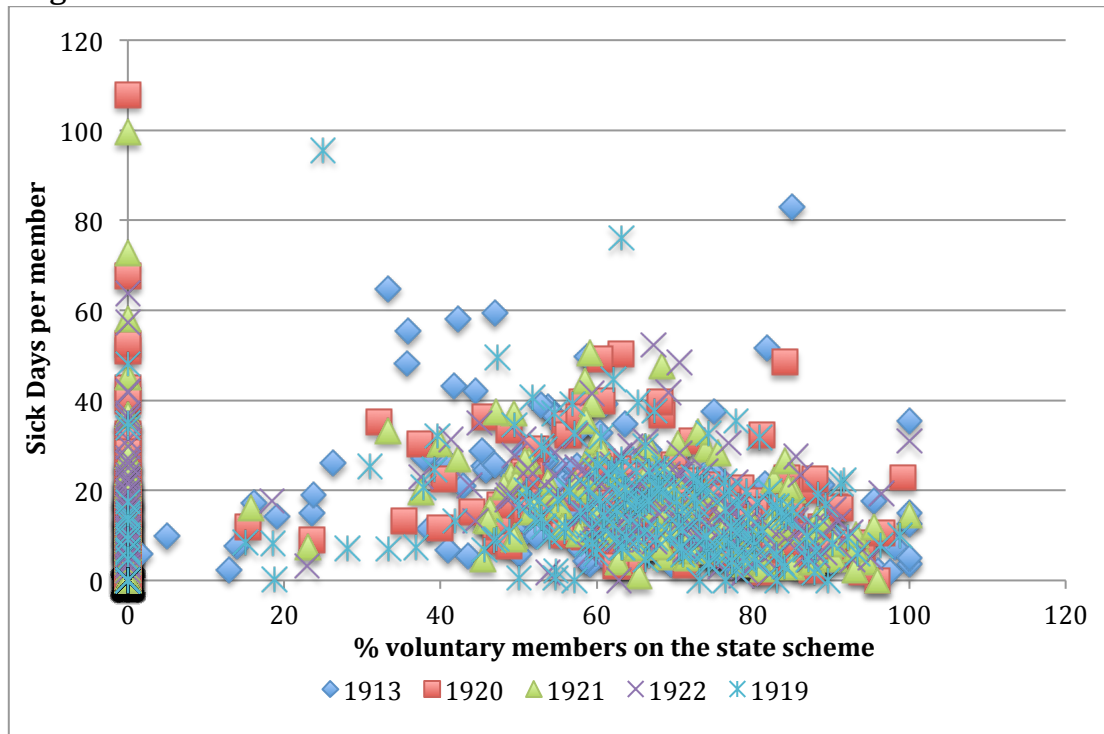
rates in courts with no state members (those data points clustered at 0 on the x-axis) was the same as in those courts with state members. Moreover there was no clear correlation of the percentage increase in sick days per member between 1913 and 1922 and the number of state members attached to the court (see **figure 5.19**).

Table 5.7: Further regressions testing the impact of the NHI scheme on sick days per member in a sample of Foresters courts, England 1909-1922 (regressions 3-5).

| Regression Number | 3 | 4 | 5 |
|-----------------------|-----------------------|----------------------|------------------------|
| Dates | 1913 and 1919-1922 | 1913 and 1919-1922 | 1913 and 1919-1922 |
| Dependent Variable | Days Sickness PM | Log Days Sickness PM | Log Days Sickness PM |
| Model | OLS | OLS | Fixed effects |
| Heteroskedasticity | Robust | Robust | Robust |
| N | 955 | 955 | 955 |
| | -19.178*** (-6.66) | 0.5586*** (3.32) | 2.7246*** (10.85) |
| Av. Age | 0.746*** (14.18) | 0.0414*** (13.48) | -0.00316*** (-0.64) |
| Freq | 0.1009 (0.13) | 0.0553 (1.26) | -0.00515 (-0.07) |
| Capital PM | 0.1834*** (4.19) | 0.00727 (2.58) | 0.00531 (0.77) |
| Initiations PM | -5.365 (-1.03) | -0.847*** (-2.79) | -0.749** (-2.14) |
| Exits PM | 42.22*** (3.62) | 1.517*** (2.23) | 0.696*** (1.17) |
| Total Size | -0.00118 (-0.11) | 0.0022*** (3.60) | 0.000103 (0.55) |
| Per cent Vol on State | 0.00330 (0.24) | -0.00073 (-0.91) | -0.00126 (-1.14) |
| Fixed effects | No | No | Yes |
| Year dummies | No | No | Yes |
| Adj R ² | 0.2643 | 0.2388 | 0.0318 |
| F | 49.95*** | 43.75*** | 2.07* |

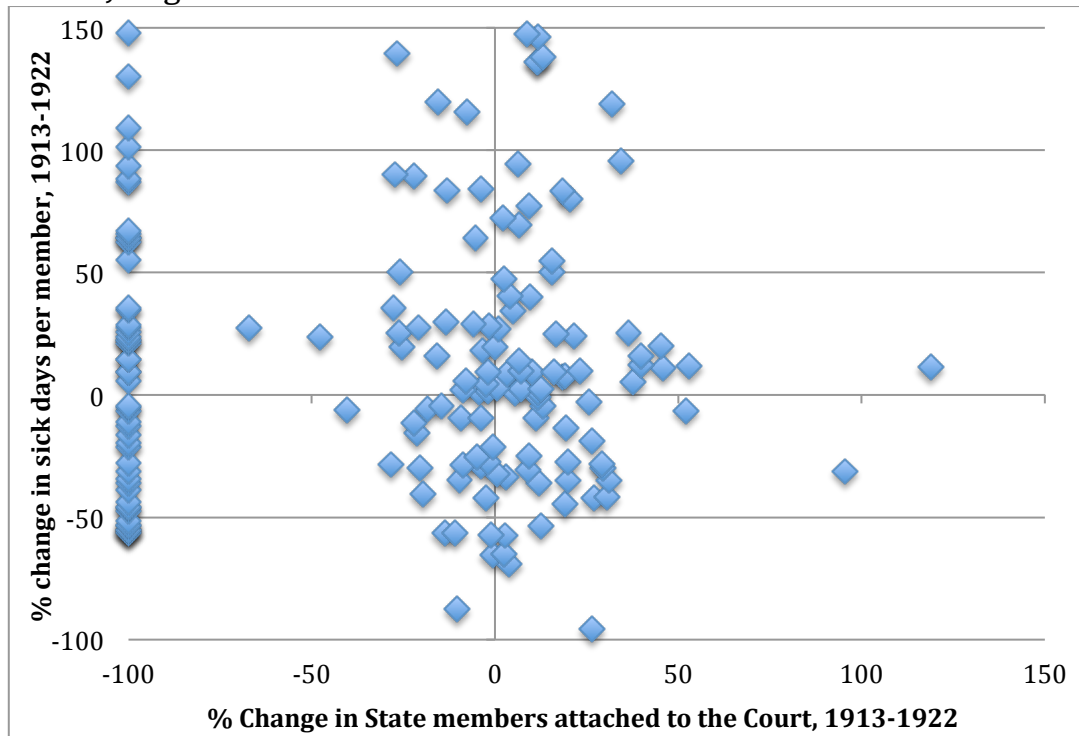
Note: Coefficients with *t* statistics in parenthesis. * denotes significant at the 10% level. ** denotes significant at the 5% level, *** denotes significant at the 1% level. *Source:* *Directory of the Ancient Order of Foresters Friendly Society for 1909 and 1910-1930 (FHT)*.

Figure 5.18: Scatter plot of sick days per member and per cent of voluntary members on the state scheme in a sample of Foresters courts, England 1913-1922.



Source: *Directory of the Ancient Order of Foresters Friendly Society for 1909 and 1910-1930 (FHT)*.

Figure 5.19: Scatter plot of percentage increase in sick days per member and number of state members attached to court in a sample of Foresters courts, England 1913-1922.

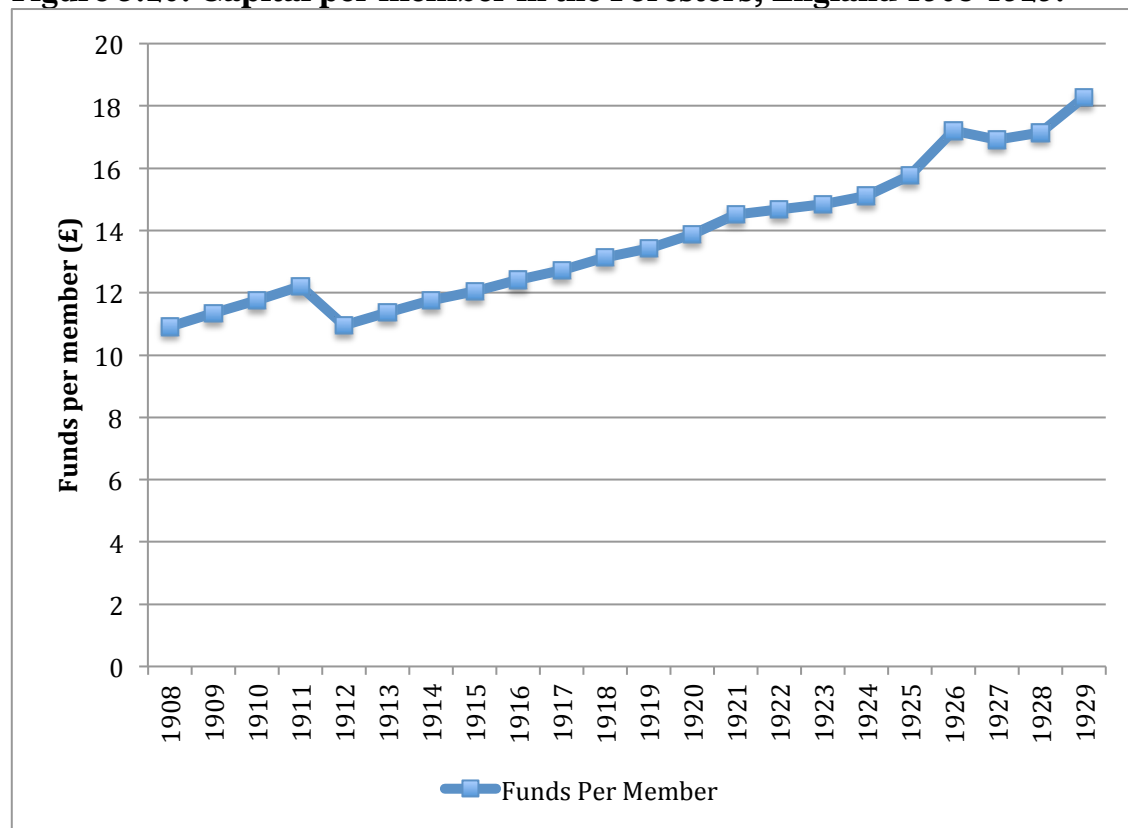


Note: Courts with -100% change in state members are those that come off the state scheme between 1913 and 1922. All courts that collapse removed. N size = 187. Source: *Directory of the Ancient Order of*

Foresters Friendly Society for 1909 and 1910-1930 (FHT).

Lloyd George argued that the NHI Act would improve the financial position of the friendly societies. This seems to have been the case at the aggregate level. In the Foresters capital per member increased dramatically between 1913 and 1930 (see **figure 5.20**). Moreover in the sample of courts the average capital per member increased from 10.99 to 13.22 after the introduction of scheme.⁶⁵¹ **Table 5.8** shows the overall valuation results of six large affiliated orders before 1912 and after NHI had been in operation for a number of years. The Foresters, Oddfellows, Shepherds and Druids showed a marked improvement. As discussed in chapter 1, the Foresters and the Oddfellows had undertaken a long process of actuarial reform over the second half of the nineteenth century, and this had meant that a number of members had seen their contributions increase. The scale of financial improvement after 1911 was so significant that both orders, in 1921 and 1925, passed measures that ‘provided for the restoration of original benefits and contributions of every member whose benefits had been reduced or contributions increased’.⁶⁵²

Figure 5.20: Capital per member in the Foresters, England 1908-1929.



Source: *Directory of the Ancient Order of Foresters Friendly Society for 1909 and 1910-1930 (FHT).*

⁶⁵¹ Significant at 1% level.

⁶⁵² Burrows, ‘On Friendly Societies’, pp.315-317.

Table 5.8: Financial progress of six large affiliated orders, Britain 1910-1929.

| | Valuation | | Surplus per member (in £) | | Change |
|-------------------------------------|-----------|-----------|------------------------------|-------|--------|
| | (a) | (b) | (a) | (b) | |
| MUIOOF | 1911 | 1925-1927 | -0.04 | 0.47 | 0.52 |
| AOF | 1907 | 1924-1927 | -1.73 | 2.01 | 3.74 |
| IOR | 1910 | 1925 | 0.42 | 0.20 | -0.22 |
| Loyal Order of Ancient Shepherds | 1911 | 1925-1929 | -2.14 | 1.69 | 3.83 |
| Sons of Temperance | 1910 | 1925 | -0.94 | -1.47 | -0.53 |
| Order of Druids | 1911 | 1929 | -13.00 | -0.91 | 12.10 |

Source: Burrows 'On Friendly Societies', p.310.

The next set of regressions test the impact of the Act on the capital held by individual courts (see **table 5.9**). Size and age were the two most important determinants of court wealth. Size meant more income in contributions and a higher annual turnover also gave courts more flexibility when it came to investing funds. Older courts were generally richer because they had built up reserves over a longer period of time, and had benefited from the interest on this capital. 'Interest on capital' measures how well the court invested its funds. New members paid an additional fee on joining and could not claim for a period of time, which would have benefited the court financially. Secessions from the court would have reduced the court's income in the next year, leading to a reduction in the courts wealth. Average age is included as a proxy for the courts liabilities, given that older members claimed more.

Both regressions suggest that the Act was financially advantageous for branches. As we would expect, the age and size of a court were positively correlated with wealth. The coefficient on the NHI dummy in regression 7 indicated that the scheme increased the capital held per court by just over £192 across all the years in which the scheme was in operation (i.e. post 1913). This was a sizable increase. In this sample in 1920 the mean capitalisation of courts was just £2086. In regression 6 the sample includes the years before the NHI scheme was in operation, which allows us to test for the impact of the scheme between courts and over time. When we include the pre-Act period, the impact of the scheme is even more pronounced. Controlling for court specific characteristics (through the fixed effects) and broader year-on-year effects (through year dummies), the NHI legislation increased the wealth of those

courts in the scheme by £231 relative to the same courts before the legislation was passed, and relative those courts not in the scheme after its introduction.

Table 5.9: Regressions testing the impact of the NHI scheme on capitalisation of courts in a sample of Foresters courts, England 1909-1922 (regressions 6-7).

| Regression Number | 6 | 7 |
|--------------------------|-------------------------|-------------------------|
| Dates | 1910-1913 and 1919-1922 | 1913 and 1919-1922 |
| Dependent Variable | Capital | Capital |
| Model | Fixed Effect | Fixed Effect |
| Heteroskedasticity | Robust | Robust |
| N | 1404 | 765 |
| Constant | -6.442*** (-1.96) | -2225.114*** (-2.69) |
| Av. Age | -0.7746408 (-0.16) | -0.4025 (-0.10) |
| Court Age | 32.690*** (7.09) | 60.609*** (6.10) |
| Freq | -26.359 (-0.22) | 140.54 (1.45) |
| Interest (t-1) | 11.202 (0.33) | -4.609 (-0.11) |
| Initiations PM (t-1) | 1.6788 (0.32) | -0.807 (1.49) |
| Exits PM (t-1) | -6.04895 (-1.49) | -1.196 (0.25) |
| Voluntary size | 5.22528*** (3.61) | 3.875*** (2.39) |
| In NHI scheme | 231.06*** (3.55) | 192.609*** (3.13) |
| Fixed effects | Yes | Yes |
| Year dummies | Yes | Yes |
| Adj R ² | 0.4433 | 0.2357 |
| F | 8.98*** | 6.39*** |

Note: Coefficients with *t* statistics in parenthesis. * denotes significant at the 10% level. ** denotes significant at the 5% level, *** denotes significant at the 1% level. *Source:* *Directory of the Ancient Order of Foresters Friendly Society for 1909 and 1910-1930 (FHT).*

Table 5.10: 95% confidence intervals for regressions 6-7.

| Regression | Dependent variable | Independent variable | 2.5% | 97.5% |
|-------------------|---------------------------|-----------------------------|-------------|--------------|
| 6 | Capital per court | In NHI scheme | 102.7881 | 359.342 |
| 7 | Capital per court | In NHI scheme | 71.13692 | 314.071 |

Estimating the impact of a one unit increase in the number of state members, or joint state-voluntary members, on a court's wealth is empirically difficult, given that we would expect the effect to operate over the long-run. Friendly societies hoped that they would be able to gradually poach state members. A successful scenario would be for an individual to join a court's approved society, purchase additional voluntary cover the next year, and then become a fully-fledged voluntary member a few years later. Such a scenario would have increased a court's wealth, but it would have taken years for the impact to show up. **Figure 2.21** suggests that there was a positive relationship between the change in the number of state members attached to a court and the change in its wealth over the period 1913-1922.

Figure 5.21: Scatter plot of percentage increase in state members attached to court and court wealth in a sample of Foresters courts, England 1913-1922.



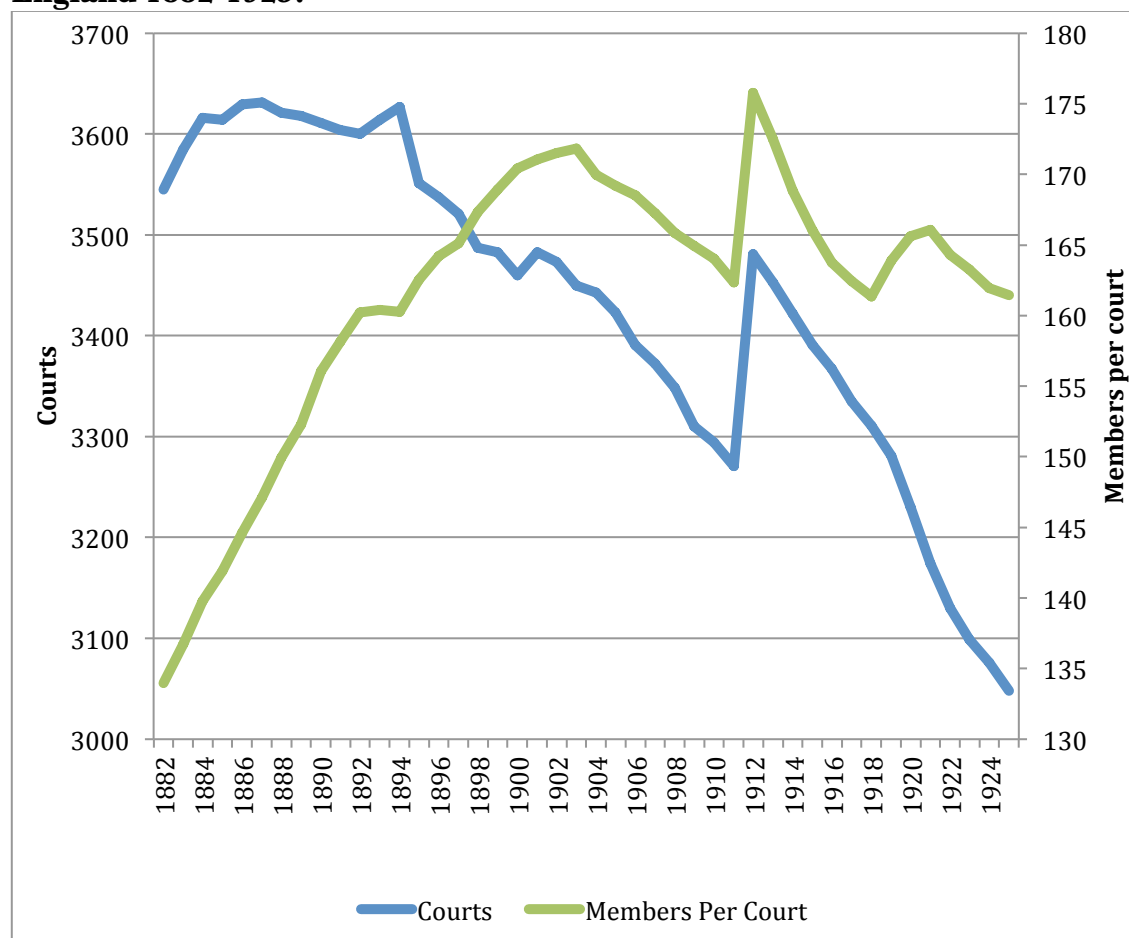
Note: This is restricted to courts with state members in 1913 and 1922. N size = 132. *Source:* *Directory of the Ancient Order of Foresters Friendly Society for 1909 and 1910-1930* (FHT).

Finally, did the NHI scheme cause some courts to collapse or merge, leading to conglomeration? It is certainly true that from 1915 the number of branches fell and the number of members per branch rose.⁶⁵³ Yet the experience of the Foresters

⁶⁵³ Harris, *The Origins*, p.194.

suggests that this was part of a longer trend (see **figure 5.22**). The biggest increase in the number of members per court took place between 1882 and 1902 and the Act actually interrupted the process because a host of new courts were formed in anticipation – indicated by the sharp spikes between 1911 and 1912 in **figure 5.22**. Similarly the raw volume of courts was falling from the late nineteenth century. The NHI scheme may have catalysed the trend, but the concentration of members in fewer branches was not a direct consequence of the Act.

Figure 5.22: Number of courts of the Foresters and members per court, England 1882-1925.



Source: *Directory of the Ancient Order of Foresters Friendly Society for 1909 and 1910-1930.*

Table 5.11 gives the results for a series of logit regressions that test the influence of the NHI scheme on the probability of a court collapsing or merging. To survive, a court needed money and members. The size of the court and capital per member were included as the main controls. The average age of members is a proxy that gauges the likelihood of an unusually high morbidity rate in a given year. A court with particularly old members was vulnerable if a number of them fell into a state of

chronic ill health. Frequency of meeting is a proxy for how effectively the court was governed. As in the other models, year dummies and court fixed effects have been included. The coefficients are the mean of the marginal effects.

Table 5.11: Logit regressions testing impact of the NHI scheme on the probability of a court collapsing, using a sample of Foresters courts, England 1909-1922 (regressions 8-10).

| Model | 8 | 9 | 10 |
|-----------------------------|------------------------------|------------------------------|------------------------------|
| Dependent Variable | Court collapses | Court collapses | Court collapses |
| Model | Logit | Logit | Logit |
| Coefficients | Mean of the marginal effects | Mean of the marginal effects | Mean of the marginal effects |
| Dates | 1910-1913 and 1919-1922 | 1913 and 1919-1922 | 1913 and 1919-1922 |
| N | 1386 | 957 | 957 |
| In NHI scheme (t-1) | -0.00635 (-0.62) | -0.0074414 (-0.64) | |
| Ratio of State to Vol (t-1) | | | -0.00194 (-0.54) |
| Capital per Member (t-1) | 3.87e-07 (0.05) | 8.65e-07 (0.10) | 1.06e-06 (0.12) |
| Court Age (t-1) | 0.0001646 (0.84) | 0.0000593 (0.24) | 0.0000806 (0.31) |
| Av. Age (t-1) | 0.0001575 (0.37) | 0.0002839 (0.51) | 0.0002165 (0.37) |
| Freq (t-1) | -0.00601 (-0.69) | -0.0078135 (-0.69) | -0.00838 (-0.73) |
| Voluntary Size (t-1) | -0.0004416*** (-2.79) | -0.0004535*** (-2.40) | -0.0004751*** (-2.49) |
| Years Since Valuation (t-1) | -0.0013059 (-0.67) | -0.0013674 (-0.59) | -0.0013459 (-0.57) |
| Year Dummies | Yes | Yes | Yes |
| LR Chi2 | 67.04 | 51.56 | 51.47 |
| Prob > chi2 | 0.000 | 0.000 | 0.000 |
| Pseudo R ² | 0.2863 | 0.2885 | 0.2880 |
| % correctly classified | 98.34 | 98.12 | 98.12 |

Note: Coefficients with z statistics in parenthesis. * denotes significant at the 10% level, ** denotes significant at the 5% level, *** denotes significant at the 1% level. *Source:* *Directory of the Ancient Order of Foresters Friendly Society for 1909 and 1910-1930 (FHT)*.

Table 5.12: 95 confidence intervals for regressions 8-10.

| Regression | Independent variable | 2.5% | 97.5% |
|------------|--------------------------|----------|---------|
| 8 | In NHI scheme (t-1) | -2.65446 | 1.38 |
| 9 | In NHI scheme (t-1) | -3.02771 | 1.53943 |
| 10 | Ratio State to Vol (t-1) | -0.8931 | 0.50509 |

Models 8 to 10 are, at best, suggestive. The goodness of fit measures are small and many of the coefficients are insignificant even though overall all the models are jointly significant at the 1% level. In regressions 8 and 9 the NHI dummy had a small and negative effect on the probability of a court collapsing. The results are insignificant but the 95% confidence interval estimates suggest that at the very most, participation in the NHI scheme increased the probability of a court collapsing by just 1.38% to 1.5% across all the years in the sample (**table 5.12**). The confidence intervals for the variable ‘Ratio of State to Voluntary’ also cross zero, but the effect is more marginal. The upper bound estimate is that a 1-unit increase in the ratio increased the probability of collapse by 0.5%. This actually entailed an unusually large increase in the number of state members. A 1-unit increase in this ratio would require the number of voluntary members to hold constant and the number of pure state members to increase 50% per annum. Between 1919 and 1922 the average annual percentage increase in the number of state members was just 19%. Therefore the effect of the scheme seems to have been economically marginal. Overall the results from these logit regressions are imperfect, but when set aside the time series evidence for the Foresters, it seems highly unlikely that the NHI scheme was entirely to blame for the conglomeration of branches.

The variable with the largest effect on the probability of court closure was size (voluntary members only). In one sense this is unsurprising; larger courts could spread liabilities over a greater number of individuals and were more likely to experience the mean mortality and morbidity rates predicted by actuaries in the valuation process. Yet the impact of court size also underlies the importance of the NHI scheme in sustaining courts. If we multiply the coefficients (mean of the marginal effects) by the average court size we get the average effect. An increase in size by one member (at the mean of court size) reduced a courts likelihood of collapse by 0.07 to 0.08 per cent. This is a large effect for the increase of just one member, and supports the

hypothesis that the NHI scheme had a beneficial impact on courts by providing them with a large influx of new members on the voluntary side.

Section 3: The development of friendly societies in Australasia, 1900-1930

Of the English-speaking nations, Britain alone introduced a national health insurance scheme before World War II. This policy divergence makes for an interesting ‘natural experiment’ of the impact of such a scheme on the functioning of friendly societies. Chapter 6 will focus on the case of the US, where the fraternal movement had already developed along a different path to the British friendly societies by the First World War. The final section of this chapter explores the development of British style societies in New Zealand and Australia between 1900 and 1930. As in the final section of chapter 4 there is a bias towards New Zealand, reflecting the better quality of the records available thanks to the detailed annual reports of the Registrar there.

At the turn of the nineteenth century Australia and New Zealand were considered the ‘social laboratories’ of the English speaking-world, having pioneered a number of welfare policies.⁶⁵⁴ Most notably state pensions were introduced in 1898 in New Zealand and 1909 in Australia. Yet in other respects Australia and New Zealand were ‘welfare laggards’. In Australasia the post-war welfare state was funded almost entirely from general taxation rather than national insurance contributions. Over the first four decades of the twentieth century repeated attempts at establishing a British style contributory social insurance system failed.⁶⁵⁵ Murphy has argued that this failure was a ‘path dependent’ consequence of an earlier institutional development.⁶⁵⁶ The arbitration system was introduced in 1894 in New Zealand and between 1901 and 1904 in Australia as a way for employers and unions to resolve industrial disputes. Over the first decade of the twentieth century the arbitration courts moved towards fixing minimum wage levels, and this blocked the development of a contributory insurance system as well as a number of other policies (for example child

⁶⁵⁴ Murphy, ‘The other welfare state’, p.6

⁶⁵⁵ Thomson, *A world*, p.55.

⁶⁵⁶ Murphy, *A Decent Provision*, p.4.

endowments).⁶⁵⁷ How national insurance would interact with the arbitrated wage system was too contested. The Labour Party and trade unions bemoaned the additional tax on workers while other parties vocalised the concern of employers that arbitration boards would be used to shift the cost of insurance contributions over to employers, effectively raising wages.⁶⁵⁸

Although Australia and New Zealand never adopted a British-style national insurance system, friendly societies in both nations were still affected by government ‘welfare’ policies. As in Britain there were concerns that a state administered, means tested, non-contributory pension scheme would encourage thriftless behaviour, welfare dependency and moral degeneracy.⁶⁵⁹ The Australian, New Zealand and British Acts of 1909, 1898 and 1908 all shared the same basic features, although the British scheme was slightly less generous and the New Zealand Act involved more rigorous means testing.⁶⁶⁰ The impact of state pensions is outside the scope of this thesis, but it seems unlikely that the policy adversely affected the friendly societies, despite the fears. In all three nations the state scheme provided a meagre annuity in old age to a very restricted group of people.⁶⁶¹ In the words of Pat Thane, the British Act was for ‘the very poor, the very respectable and the very old’, and the same can be said of the Australasian schemes.⁶⁶² The friendly societies provided a different set of products – sickness, medical and death benefits. Moreover because state pensions were non-contributory there was little risk that individuals would suddenly stop participating in a friendly society, as was the risk with any contributory state welfare schemes.

⁶⁵⁷ Ibid., pp.82-94, 129-202; C.H. Verrill, *Minimum-wage legislation in the United States and Foreign Countries*, *Bulletin of the United States Bureau of Labor Statistics, Misc. Series 8, no.167*. (Washington, 1915), p.168.

⁶⁵⁸ A. Downing, ‘Review of *A Decent Provision: Australian Welfare Policy, 1870 to 1949*’, *Continuity or Change*, 28, 1, (2013), p.154.

⁶⁵⁹ M. Pugh ‘Working-class experience’, pp.777; Murphy, *A Decent Provision*, pp.51, 97; P. Thane, ‘The Working Class and State ‘Welfare’ in Britain, 1880-1914’, *The Historical Journal*, 27, 4, (1984), pp.879-880; Rogers, ‘A “most imperial” contribution’, p.193; *Oddfellows’ Magazine*, December, 1901, p.452 (OOA); *Oddfellows’ Magazine*, December, 1899, p.423 (OOA); *Oddfellows’ Magazine*, October 1903, p.466 (OOA).

⁶⁶⁰ For New Zealand, see Rogers, ‘A “most imperial” contribution’, p.192; Thomson, *A world*, pp.162-163; For Britain see P. Thane, ‘The Old Age Pensions Act, 1908’, *Journal of Liberal History*, 60, (Autumn, 2008), p.10; P. Johnson, ‘Self-Help versus State-Help: Old Age Pensions and Personal Savings in Great Britain, 1906-1937’, *Explorations in Economic History*, 21, 4, (1984), p.337; Harris, *The Origins*, p.159; For Australia, see *Official Year Book of the Commonwealth of Australia*, No.5, 1912 (Melbourne, 1912), p.1199; Murphy, *A Decent Provision*, pp.94-102 .

⁶⁶¹ Carlyon, ‘New Zealand Friendly Societies’, p.186.

⁶⁶² P. Thane, *Foundations of the Welfare state* (London, 1996), p.77.

Many friendly society officials were concerned that if state pensions were means tested this would discourage participation.⁶⁶³ However because policy makers wanted to incentivise participation in prudential organisations, seeing it as a marker of respectability and therefore deservedness, a number of clauses were included in the various Acts that actually incentivised joining a friendly society. In Britain an individual was exempt from various disqualifications provided that they ‘had continuously for 10 years up to attaining the age of 60, by means of payment to friendly, provident, and other societies... made provision for old age, sickness, infirmity, or want or loss of employment.’⁶⁶⁴ The Australian and New Zealand schemes were more informal but membership in a friendly society was seen as evidence of ‘good moral character’, and thus helped an individual qualify.⁶⁶⁵ In the case of Britain Johnson and Harris have argued that the state pension actually encouraged thrift and boosted savings rates because it offered savers greater long-term security.⁶⁶⁶ Overall concerns that the state pension would lead to the demise of the friendly societies proved unwarranted.

A more significant challenge to the friendly societies in Australasia came in the form of the New Zealand National Provident Fund Act of 1910 (hereafter the NPF). Championed by the Liberal Premier Richard Seddon, under the scheme individuals between 16 and 44 earning less than £200 per annum could voluntarily contribute to a superannuation fund. The majority of the population would have been eligible since in 1910 even a skilled tradesman did not earn this much.⁶⁶⁷ The fund was then subsidised by the government at a rate ranging between 10% and 25% depending on the income of the contributor. Interest was paid on deposits and the final lump sum would pay for a weekly annuity from the age of 60, ranging from 10-40 shillings depending on the level of contribution made. To combat the stagnating birth rate the government also contributed £6 to the fund on the birth of each child of the contributor. There were other benefits available for long-term contributors, such as additional child benefits for incapacitated workers. To encourage the young to sign

⁶⁶³ Cordery, *British Friendly Societies*, p.164.

⁶⁶⁴ Gosden, *Self-help*, p.281.

⁶⁶⁵ *Official Year Book*, No.5. p. 1199; Rogers, ‘A “most imperial” contribution’, p.192.

⁶⁶⁶ Johnson, ‘Self-Help versus State-Help’, pp.329-350; Harris, *The Origins*, p.196; see also Gosden, *Self-help*, pp.282-3; see also J. Bourdieu, L. Kesztenbaum and G. Postel-Vinay, ‘Thrifty Pensioners: Pensions and Savings in France at the Turn of the Twentieth Century’, *Journal of Economic History*, 71, 2, (2011), p.408.

⁶⁶⁷ Thomson, *A world*, p.55.

up, if an individual left the scheme before 60 all contributions would be returned minus any benefits paid.⁶⁶⁸

The friendly societies of New Zealand were initially alarmed by the Act and regarded any state contributory scheme as competition for the limited funds available to working class households.⁶⁶⁹ To counter these concerns Seddon proposed subsidising any friendly society whose members participated in the NPF. A qualifying society would be refunded a portion of the weekly benefits paid to members over 65 on a sliding scale depending on the financial and marital status of the individual concerned. The government would also subsidise the weekly benefits of chronically ill individuals over 65.⁶⁷⁰ From an individual's perspective these subsidies made little difference, but for a friendly society the additional funds would, in theory, mean a society could reduce its fees to compete for new members. Somewhat surprisingly the friendly societies initially rejected Seddon's proposal, complaining about a loss of financial autonomy and the erosion of self-reliance. This opposition was costly and the subsidy proposal was dropped from the final draft of the legislation.⁶⁷¹

The NPF was launched in March 1911. The initial popularity of the scheme alarmed the friendly societies, and many officials became concerned that government recruiters were stealing away potential members. The Grand Master of the Wellington District of the Oddfellows declared that 'now we have the government as an out-and-out competitor in work that has been regarded as the exclusive field of friendly society operation, ... [without] the many expenses incidental to the working of the Lodge and backed by the guaranteed subsidy of the State, this scheme is bound to attract the thrifty and to be to us a formidable opponent.'⁶⁷²

Such pessimism proved unwarranted. The NPF and the friendly societies were only in competition in the sense that individuals with limited funds might choose to invest in the former over the latter. Yet the government scheme and the friendly societies offered a very different product. Friendly societies provided sickness and

⁶⁶⁸ Carlyon, 'New Zealand Friendly Societies' pp.190, 192.

⁶⁶⁹ *Ibid.*, pp.190-191.

⁶⁷⁰ *Ibid.*, pp.190-191.

⁶⁷¹ *Ibid.*, pp.191-197.

⁶⁷² *Ibid.*, p.196.

medical benefits, whereas the NPF provided a deferred annuity with a maternity benefit subsidy.⁶⁷³ In the Oddfellows and the Foresters the initiation rate fell between 1911 and 1913, but this was part of a long-term trend going back to the 1880s (see **figure 5.24**), moreover after the war initiations picked up again (see **figure 5.25**). It is important to bear in mind that friendly society officials complained that the NPF scheme had negatively affected participation rates to justify the amendment of the Act to include a subsidy.

In spite of considerable parliamentary support an amendment was not forthcoming for a number of years. In August 1914 the Act was changed to allow societies to become contributors on behalf of members.⁶⁷⁴ This was a fig leaf and made little difference. With the outbreak of war in 1914 the government needed to put all its resources into the war and the subsidy ceased to be a priority.⁶⁷⁵ In 1916 a solution was finally agreed. Members of ‘approved’ friendly societies were allowed to contribute to the NPF at half the normal rate, with the other half being made up by the government. Upon reaching the age of 60 an individual would be entitled to a pension and his society would cease to be liable for any sickness payments. This amendment incentivised joint participation in a friendly society and the NPF, and also helped the societies by relieving the burden of perpetually infirm older members.⁶⁷⁶ This amendment may have contributed to the pick up in initiation rates after the War. Although this seems unlikely given that the initial popularity of the scheme was short lived. Male contributors at the end of 1913 represented less than 2% of men aged 16 to 44, and this figure barely increased after the war.⁶⁷⁷

How did the friendly societies progress in the Antipodes in the absence of national health insurance? In all the regions of Australasia there was a steady increase in the number of members (see **figure 5.23**) between 1900 and 1930. This reflected population growth as well as the rising popularity of these organisations (see **figure 0.1 in introduction**). In Britain the Oddfellows and the Foresters were far less successful, barely growing at all between 1900 and 1930. This might be seen as

⁶⁷³ Ibid., p.196.

⁶⁷⁴ Ibid., p.200.

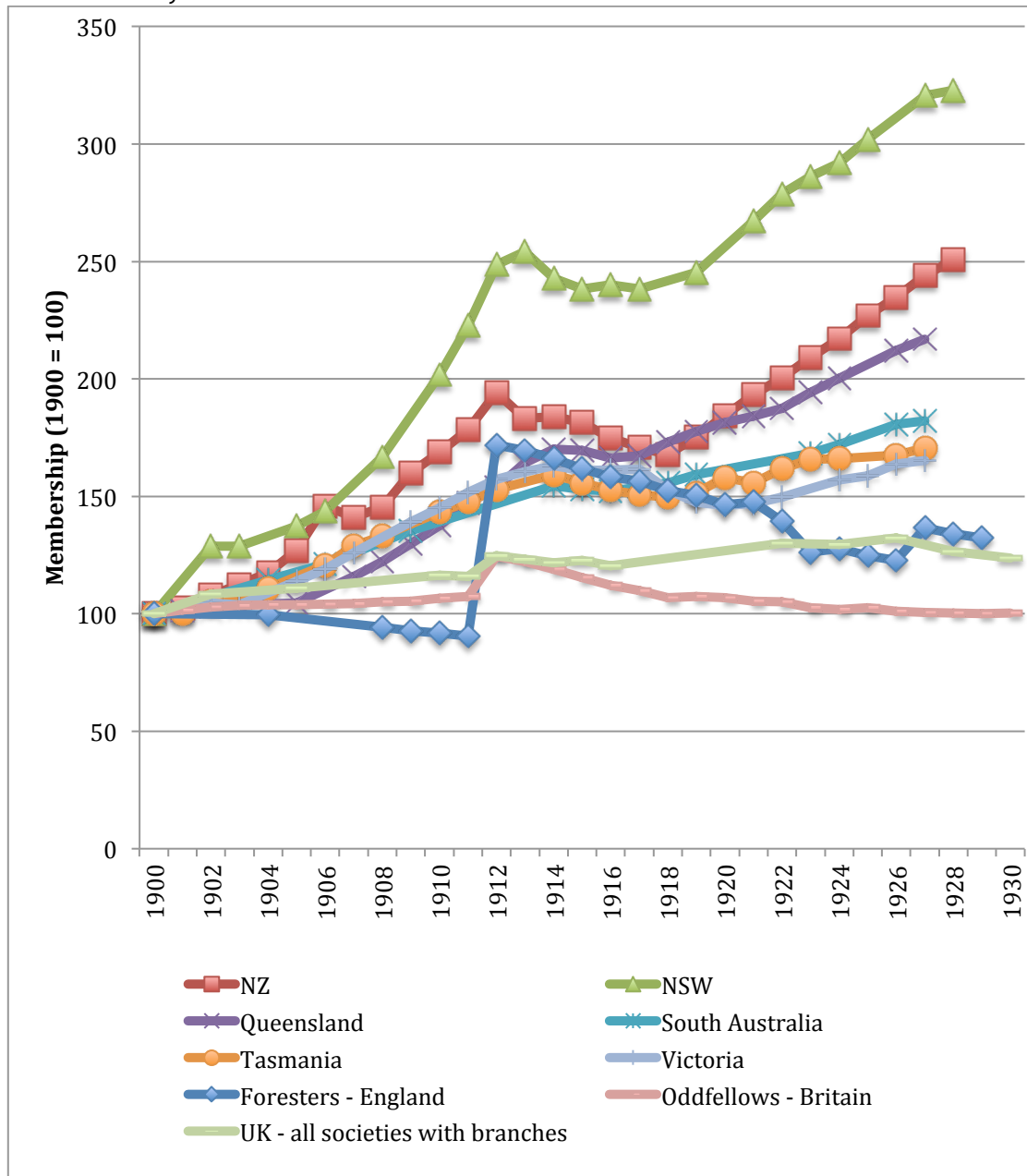
⁶⁷⁵ Ibid., p.202.

⁶⁷⁶ Ibid., p.206.

⁶⁷⁷ Thomson, *A world*, pp.56-57.

confirmation that NHI had a negative impact, but it is important to bear in mind that the friendly society movement was at an earlier stage in its life cycle in Australasia. Societies and branches were younger and were growing at a faster rate than in Britain at the end of the nineteenth century. The precise pattern of membership growth in Australasia and Britain reveals more about the impact of the 1911 Act. In Australasia there were three distinct phases; a rapid increase in members between 1900 and 1914, stagnation during the war, followed by continued growth from 1918. In Britain there was a clear spike in the number of members of the Foresters and the Oddfellows with the introduction of NHI. Thereafter membership growth slowed and returned back to the pre-1911 trend of stagnation. The radical disjuncture in the British data, in contrast with steadier growth in Australasia, supports the idea that the Act gave the British friendly societies a temporary membership boost.

Figure 5.23: Membership growth of affiliated societies in Australasia and Britain, 1900-1930.

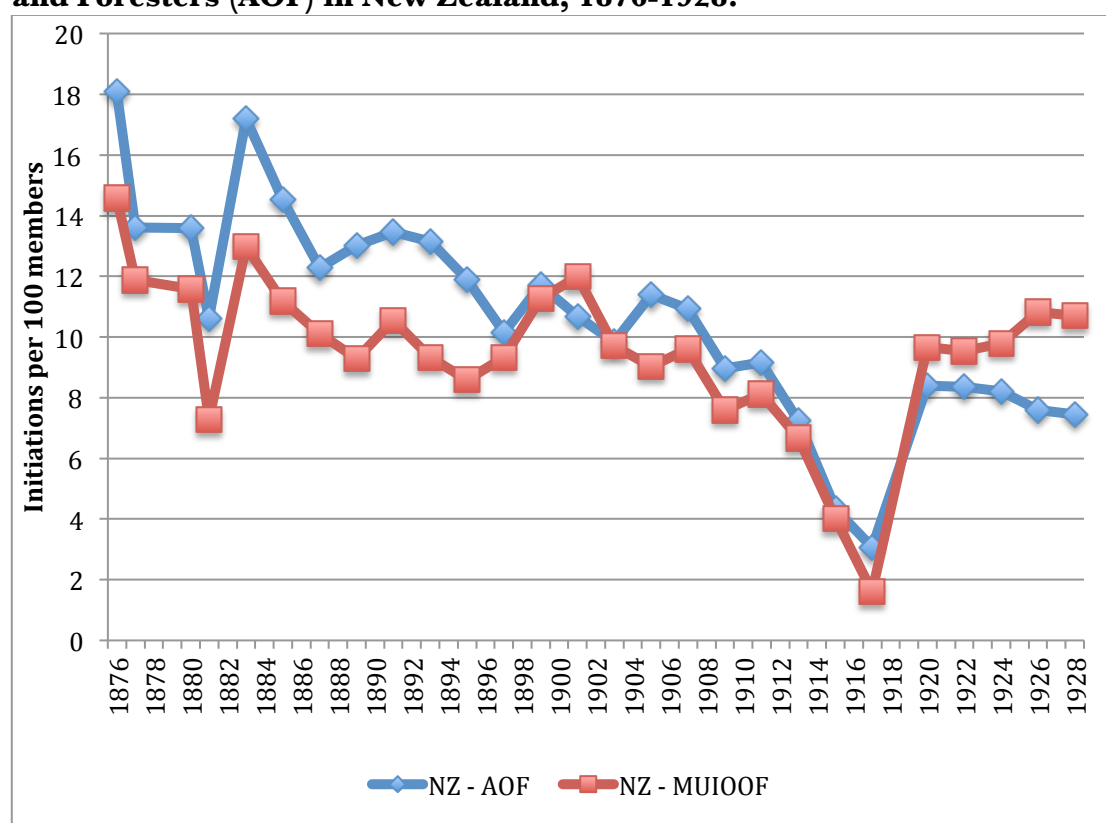


Note: Figures for Australasia relate to all affiliates societies. Figures for the Oddfellows in Britain and the Foresters in England include both pure voluntary members and joint state-voluntary members. *Source:* Successive editions of *Friendly Societies: Report of the Registrar for New Zealand* for the years 1900-1930; Available editions of *A list of the lodges Composing the Independent Order of Oddfellows, Manchester Unity*, between 1901-1931 (OOA), see footnote 39 page 8; Editions of *Directory of the Ancient Order of Foresters Friendly Society*, 1900-1930 (FHT); Harris, *The Origins*, pp.82-3, 194.

The impact of the 1911 Act is even clearer when comparing initiation rates in different regions. At the beginning of the twentieth century initiation rates were higher in Australia and New Zealand than Britain. In New Zealand initiation rates had actually been falling from the 1880s but were still much higher than in Britain

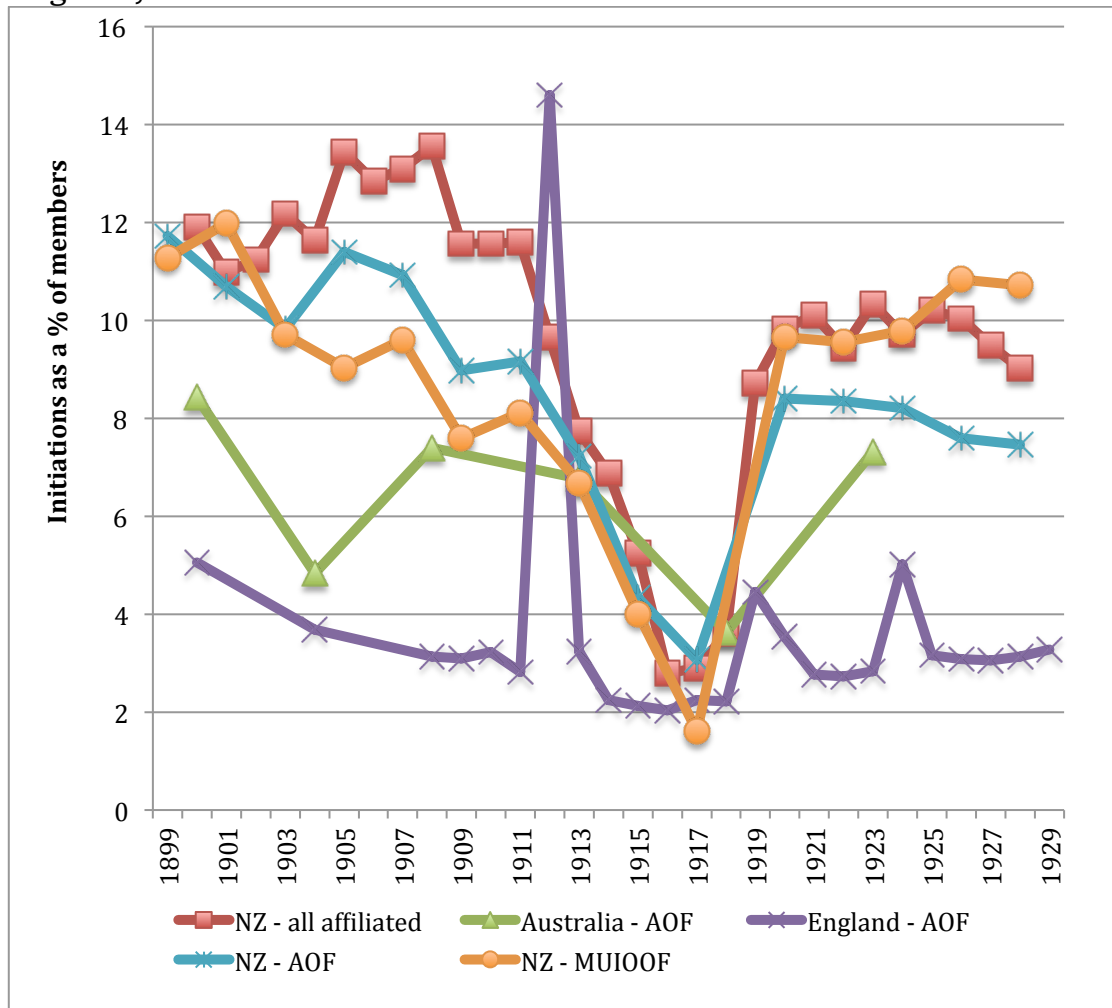
(see **figure 5.24** and **5.25**). Unsurprisingly initiations fell dramatically between 1914 and 1918, as the War drained Australasia of the younger men that were staple friendly society recruits. In contrast in the Foresters in England the War had a very moderate impact, after a huge increase in initiations in 1912. This reflected the large number of individuals added to branches through the state scheme, individuals who also purchased additional voluntary cover. As discussed, in effect the Act allowed the Foresters to ‘upsell’ voluntary membership to a vast pool of state members. The NHI scheme was the main reason why initiation rates were seemingly unaffected by the War. The NHI scheme gave branches access to state members, and we would expect membership in the state scheme to have been less responsive to the War because it was subsidised and compulsory for many members in certain industries or with an income below a certain threshold.

Figure 5.24: Initiations per 100 members in the Oddfellows (MUIOOF) and Foresters (AOF) in New Zealand, 1876-1928.



Source: *Friendly Societies: Report of the Registrar for New Zealand* for the years 1877-1928.

Figure 5.25: Initiations as a percentage of members, Australasia and England, 1900-1930.



Note: MUIOOF = Oddfellows, AOF = Foresters. Source: *Friendly Societies: Report of the Registrar for New Zealand*, for the years 1899-1929; *Directory of the Ancient Order of Foresters Friendly Society for 1900 to 19230* (FHT).

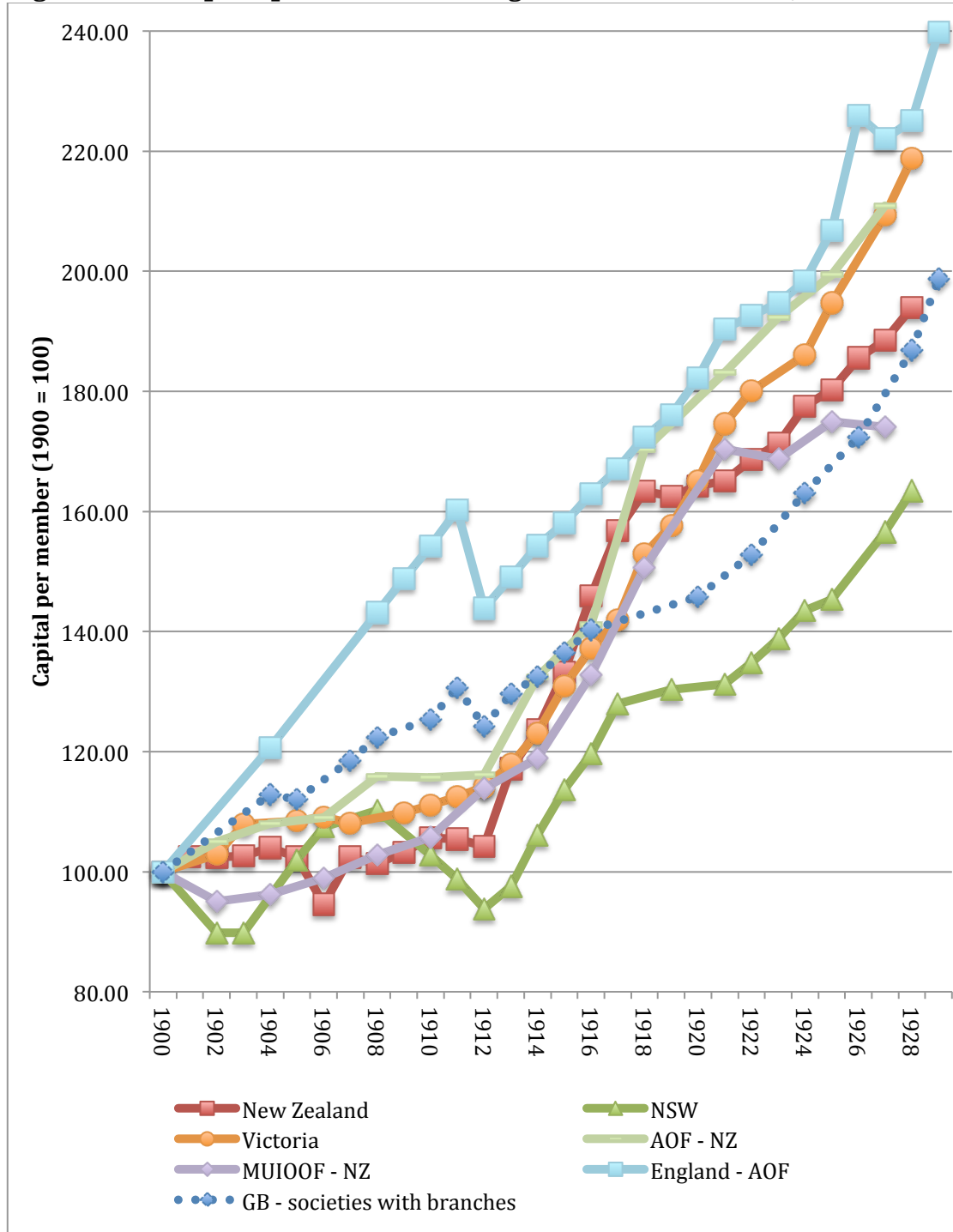
Unfortunately the annual report of the Registrar in New Zealand did not include branch level data from 1900. However the summary tables of the annual returns do disaggregate to the regional level for all registered societies. From these tables I compiled a district-level panel data set of 31 districts of the three major affiliated societies in New Zealand (the Oddfellows, the Foresters and the Druids) between 1907 and 1930. This sample of districts can be compared to the panel of English Forester’s courts used earlier in this chapter.

Based on these two panels the NHI scheme seems to have made participation more durable. Between 1909 and 1912 the mean secession rate per 100 members (both state and those on both the state and the voluntary scheme) in the sample of

Forester's courts was 3.73. Following the implementation of the NHI scheme this rate dropped to 1.49 (for the years 1913, 1919-1922). In the New Zealand districts the secession rate between 1907 and 1912 was 5.58 per 100 members, and between 1919 and 1924 it had fallen only slightly to 5.33. In Britain state members that also contributed to the voluntary side of courts were usually purchasing small levels of additional cover. It was probably the case that these members were less likely to default because they were only paying a small amount in fees.

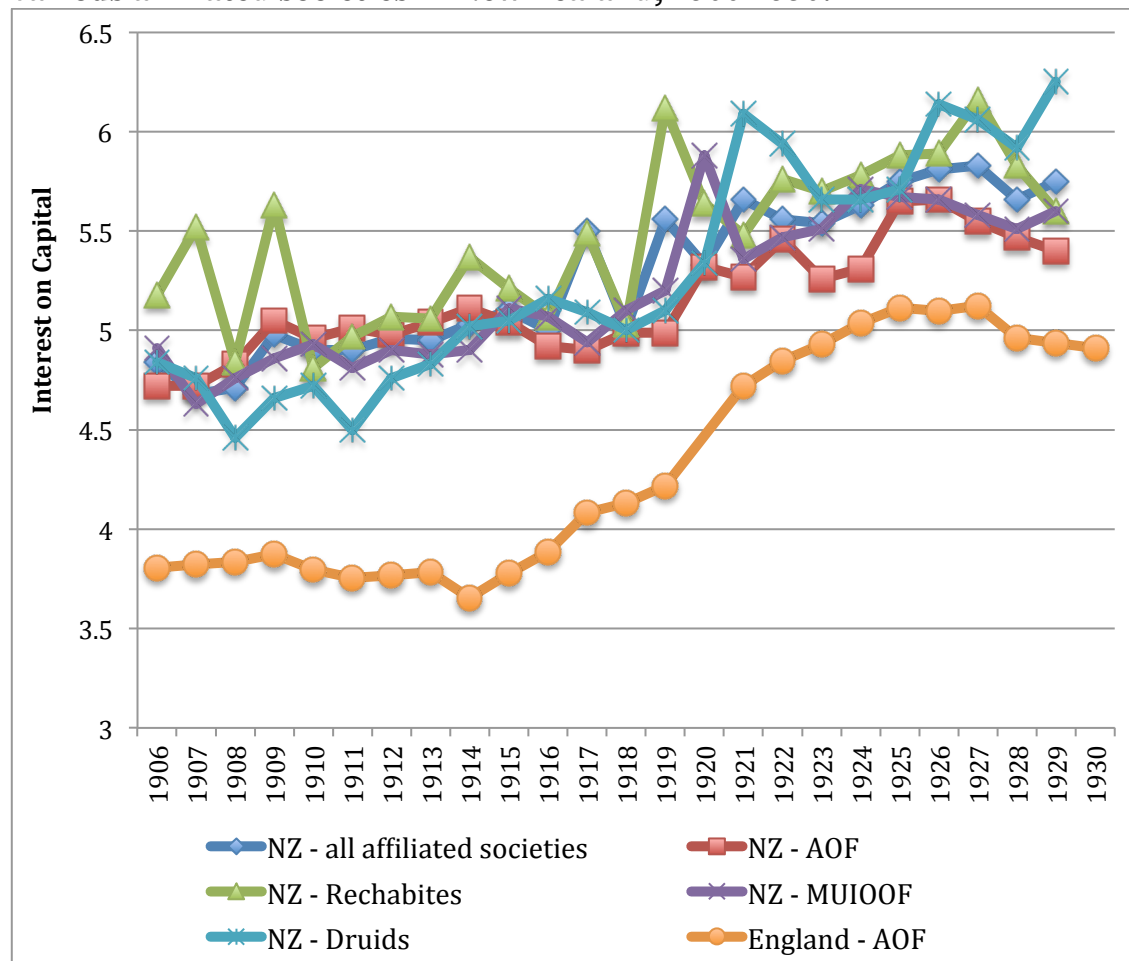
As demonstrated in the first section of this chapter, at the court level the NHI Act seems to have had a positive financial impact. Cross-country aggregate trends seem to confirm this conclusion. As **figure 5.26** demonstrates, the English Foresters achieved the highest rate of capital growth over the period, increasing its capital per member by 140% between 1900 and 1930. The dramatic drop in capital per member in 1911-12 simply reflects the sudden increase in the number of members, which increased the size of the denominator in the calculation of this variable. The friendly societies in Australasia also grew wealthier, but at a slower pace than the English foresters. Australasian societies did, however, overtake the broad category of British affiliated societies from 1916. The growth in the wealth of the English Foresters is even more startling given that the organisation achieved a poor rate of return on capital throughout the period. Between 1900 and 1930 the three largest affiliated societies in New Zealand – the Oddfellows, the Forester and the Druids – achieved rates of return of between 4.5% and 6.5%. The Foresters in England only broke 5% in 1924 and were behind across the entire period (see **figure 5.27**). Comparable time-series data is unavailable for Australia, but as **figure 5.28** shows, in 1925 Australian courts of the Foresters had a mean rate of return higher than English courts. Although more English courts achieved a rate of between 5-6%, far more Australian courts listed an interest rate of above 6%.

Figure 5.26: Capital per member in England and Australasia, 1900-1930.



Note: Figures for New Zealand, NSW and Victoria relate to all affiliates societies. Figures for the Foresters in England include both pure voluntary members and joint state-voluntary members. *Sources:* *Friendly Societies: Report of the Registrar for New Zealand* for the years 1900-1929; *Directory of the Ancient Order of Foresters Friendly Society, 1900-1930 (FHT)*; *Reports of the Chief Registrar of Friendly Societies for the year ending 31st December 1900, Part A, Appendix K, List of Friendly Societies, with Summaries of Returns, Valuations, &c. [35], (London, 1901), pp.286-289*; *Twenty-second abstract of labour statistics [Cmd. 5556], pp.160-161*; *Seventeenth abstract of labour statistics [Cd. 7733], p.256*; *Eighteenth abstract of labour [Cmd. 2740], p.200*; *Reports of the Chief Registrar of Friendly Societies for the year ending 31st December 1916, Part A., General report, [101], (P.P., 1917-18, XXVII), pp.86-87*; *Reports of the Chief Registrar of Friendly Societies for the year ending 31st December 1917, Part A. General report, [119], (P.P. 1918, X), pp.92-93.*

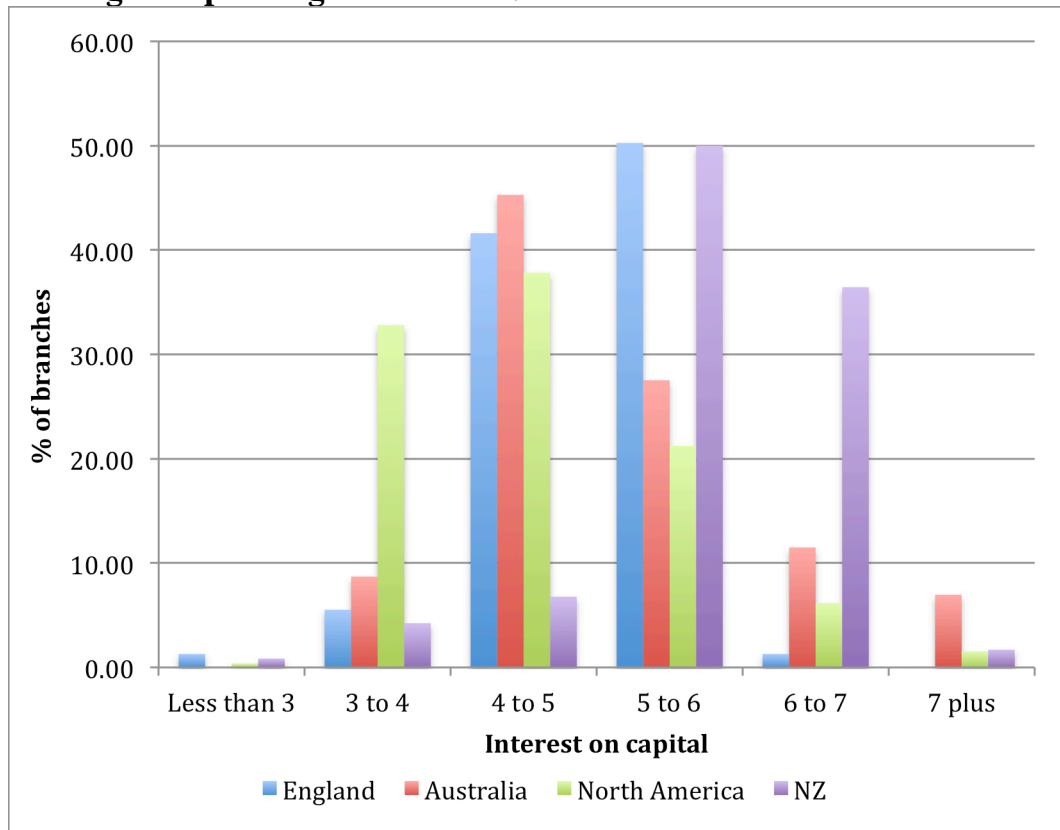
Figure 5.27: Rate of return on capital in the English Foresters and various affiliated societies in New Zealand, 1906-1930.



Note: MUIOOF = Oddfellows, AOF = Foresters. Sources: *Friendly Societies: Report of the Registrar for New Zealand* for the years 1906-1930; *Directory of the Ancient Order of Foresters Friendly Society* for 1921, pp.578-587 (FHT); *Ancient Order of Foresters, Quarterly Report of the Executive Committee, April 1932*, pp.104-121 (Reports Section FHT).

Rising levels of morbidity, and the suspicion that this was a consequence of ‘malingering’, was a concern in Australasia as it was in Britain. Some friendly society officials were concerned that the NHI scheme created a ‘moral hazard’ problem and that this would lead to an increase in claims. The cross-country evidence undermines this claim. Between 1908 and 1930 the total number of sick days per member was lower in New Zealand than England (see **figure 5.29**). This reflected a combination of better living standards and the comparative youth of the membership in New Zealand. As **table 5.13** shows, at the beginning of the twentieth century English courts of the Foresters had an older age structure than a sample of branches of the Foresters and Oddfellows in New Zealand. The data in **table 5.13** are based on the panel of English courts discussed above and a sample of 482 branches of the Foresters and the Oddfellows in New Zealand valued between 1907 and 1912 (these are the

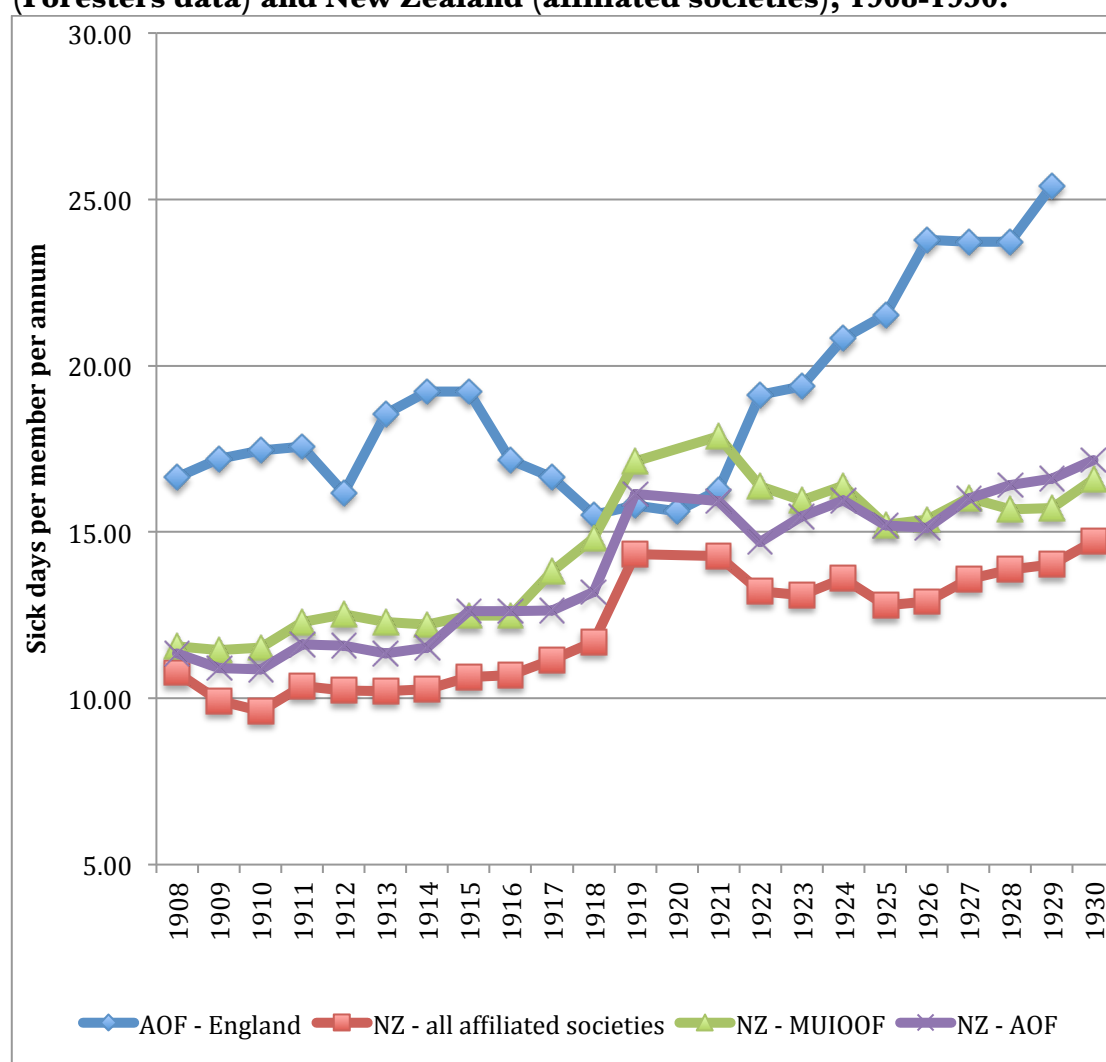
Figure 5.28: Rate of return on capital in courts of the Foresters around the English-speaking world in 1925.



Note: Data for England based on a sample of 543 English courts, a 17.66% sample when using 3074 courts as the denominator. Sampling procedure involved selecting every 5th male only court with state members attached. Courts with incomplete returns were dropped. All courts listed in Australia, New Zealand, Canada and the US were in the analysis included – 302, 132, 160 and 123 courts respectively. *Source:* *Directory of the Ancient Order of Foresters Friendly Society for 1925* (FHT).

only record of the average age of members of branches contained in the annual reports of the Registrar after 1900). In **figure 5.29** the 1911 Act does not seem to have had a noticeable effect. The total number of sick days per member only increased moderately between 1912 and 1913 when the NHI scheme was fully implemented. Morbidity rates actually fell over the course of the War in Britain, picking up again thereafter. After the War the volume of claims increased at a rapid rate in Britain in contrast to New Zealand, although this probably reflects the older age of members in England rather than an increase in ‘malingering’ or lax supervision of claims (see **table 5.13**).

Figure 5.29: Total number of days sickness per member in England (Foresters data) and New Zealand (affiliated societies), 1908-1930.



Source: *Directory of the Ancient Order of Foresters Friendly Society, 1909-1930 (FHT)*; *Friendly Societies: Report of the Registrar for New Zealand* for the years 1908-1930.

Table 5.13: Average age of members of branches in England and New Zealand, 1907-1922.

| Region | Mean of the average age of members of branches |
|--|--|
| England, Foresters 1909-1913 | 42.05 (n = 1240) |
| England, Foresters 1913, 1929-1922 | 44.15 (n = 1817) |
| New Zealand, Oddfellows and Foresters valued between 1907-1912 | 35.47 (n = 482) |

Sources: *Friendly Societies: Report of the Registrar for New Zealand for 1907*, in AJHR, Section I, session H-01, (1908), pp.26-28; and reports for the years 1908, pp.22-23; 1909, pp.34-37; 1910, pp.23-25; 1911, p.22; 1912, pp.21-22; Analysis of English Foresters uses panel data set discussed in first section of this chapter, *Directory of the Ancient Order of Foresters Friendly Society for 1909, 1910-1913, 1919-1922 (FHT)*.

As discussed in chapter 3, from the end of the nineteenth century the British friendly societies faced an aging population problem. Old members permanently too sick to work began using the sickness benefits system as a pension scheme.⁶⁷⁸ The claims of these members had a large impact on the overall number of sick days per member. It is therefore important to compare cross-sectional as well as time series morbidity data to account for this distributional effect. The district-level summary tables in the New Zealand Registrar's annual reports also recorded the total number of days sickness per annum. The data set compiled from these tables can be compared with the English court level panel discussed in this chapter. **Table 5.14** compares morbidity rates before and after the introduction of the NHI scheme in Britain. In the case of the English courts in the top two rows the total number of days sickness has been divided by the total number of pure voluntary members plus joint members (paying into the state and the voluntary side). In the bottom two rows the denominator is the total number voluntary members. The pre-Act period covers the years 1909 to 1912 in the case of Britain and 1907-1912 in the case of New Zealand. The post-Act results are for the period 1919-1922 in Britain, and 1919-1924 in New Zealand. In New Zealand there was a clear increase in the number of sick days per member, from 12 to 16 days per annum. In the English Foresters the opposite was the case. In the top two rows this was a simple numerical effect; because the denominator includes all voluntary members (both pure voluntary and joint state-voluntary members) the total number of days sickness has been divided by a much larger number. Nevertheless it does show that joint members were less likely to claim because otherwise the figure would have remained flat. In the bottom two rows, which use just voluntary members in the denominator, the decrease is less significant. The impact of using different denominators makes it difficult to interpret these results with any precision. Moreover there are issues with the comparability of court level and district level data. Yet these results corroborate the main conclusion of this chapter, namely the NHI Act had a negligible impact.

⁶⁷⁸ Riley, *Sick, Not Dead*, pp.145-151.

Table 5.14: Mean sick days per member experienced by courts of the Foresters in England and branches of the Oddfellows and the Foresters in New Zealand, 1907-1925.

| | Pre NHI Act | Post NHI Act |
|--|--------------------|--------------------|
| (i) Using pure voluntary members and state and voluntary members in England | | |
| New Zealand | 12.26 (n = 178) | 16.35 (n = 168) |
| England | 17.47 (n = 852) | 11.73 (n = 965) |
| (ii) Using only pure voluntary members in England | | |
| New Zealand | 12.26 (n = 178) | 16.35 (n = 168) |
| England | 17.47 (n = 852) | 17.03 (n = 965) |

Note: Pre-Act period covers the years 1909 to 1912 in the case of Britain and 1907-1912 in the case of New Zealand. To exclude the war years the post-Act results are for the period 1919-1922 in Britain, and 1919-1924 in New Zealand. *Source:* *Friendly Societies: Report of the Registrar for New Zealand*, reports for the years 1907-1925; *Directory of the Ancient Order of Foresters Friendly Society for 1909, 1910-1913, 1919-1922* (FHT).

One issue remains unresolved: Why did the affiliated friendly societies in Australasia continue to grow steadily, whereas in Britain they stagnated? Rather than this being a consequence of government social policy it is more likely that it was down to something far simpler. British affiliated friendly societies faced greater competition from other organisations, most notably collecting friendly societies and industrial life assurance companies. British affiliated societies grew 23% between 1900 and 1930. In contrast the number of industrial life assurance and collecting friendly society policies increased by an astonishing 279% and 273% between 1898 and 1930.⁶⁷⁹ This reflected a shift in working class saving patterns, with a greater focus on long-term financial planning for old age.⁶⁸⁰ In Australasia industrial life assurance was far less popular.⁶⁸¹ **Figure 5.30** is based on Johnson's estimates and the annual figures collected in the Australian Yearbooks. The gulf between the two regions was huge. In 1906 there were 98.1 paid up policies per for every 100 people in Britain, but only 6.8 in Australia. The divergence only grew larger over the interwar period. Moreover in Australia collecting friendly societies were almost non-existent. The Australian Yearbooks do not even mention them, and in New Zealand they were entirely absent from the published lists of registered societies. This was not a consequence of a

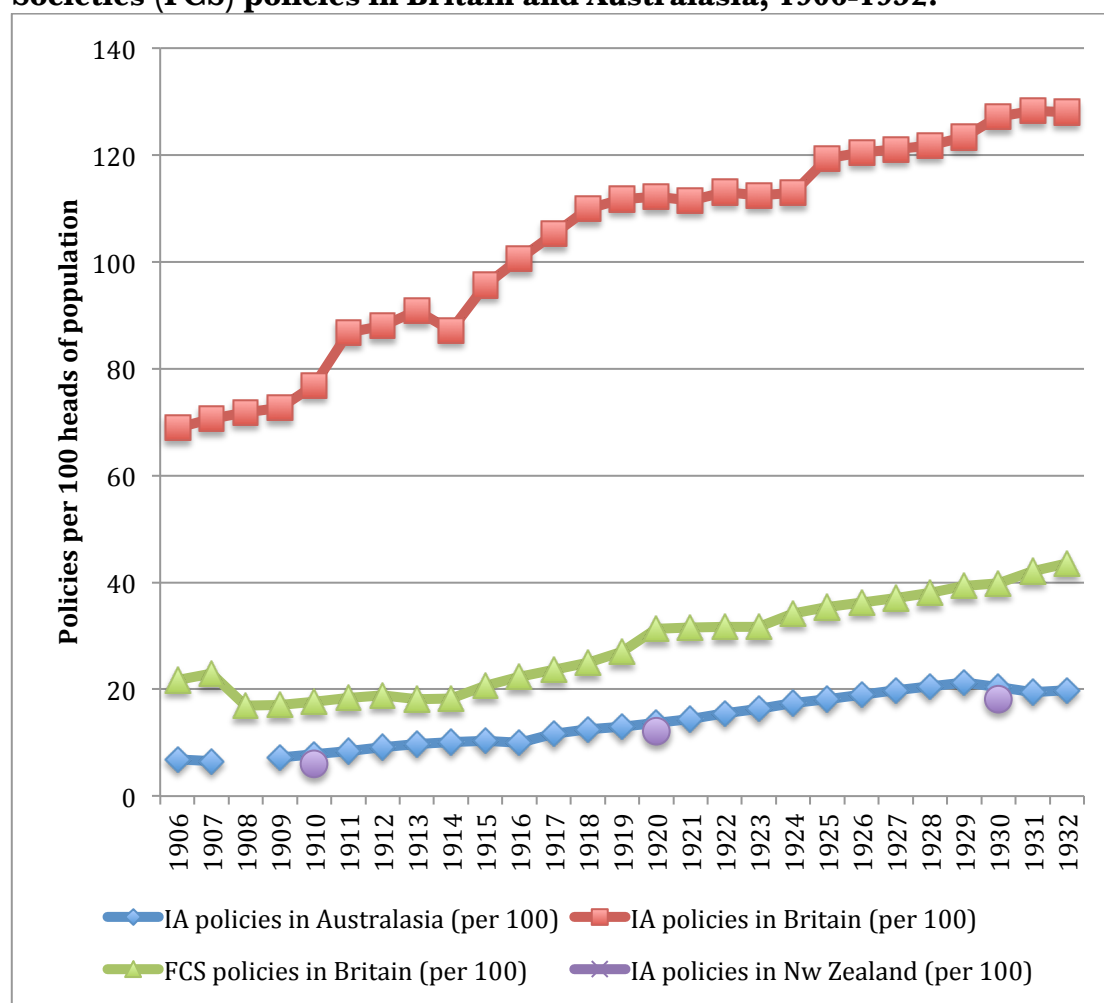
⁶⁷⁹ See above and Johnson, *Saving and Spending*, pp.16-19.

⁶⁸⁰ Harris, *The Origins*, p.193.

⁶⁸¹ See Thomson, *A world*, p.57.

different registration system. The second annual report by the Registrar of New Zealand in 1879 discussed the registration of The New Zealand Prudential Assurance Society, ‘the first representative of a group of societies (“collecting societies”) numerous and important in England’.⁶⁸² The Prudential was registered under the ‘Miscellaneous Societies’ heading in 1879 but had disappeared from the list by 1891.⁶⁸³ As in the case of centralised ‘branchless’ societies like the Hearts of Oak, collecting societies appear to have been a total failure in Australia and New Zealand.

Figure 5.30: Number of Industrial Assurance (IA) and Friendly Collecting Societies (FCS) policies in Britain and Australasia, 1906-1932.



Source: Johnson, *Saving and Spending*, p.16-19; Mitchell and Deane, *Abstract of British Historical Statistics*, pp.9-10; Volumes of *Official Year Book of the Commonwealth of Australia*, no.1-27, 1908-1934; Bloomfield, *New Zealand: A Handbook of Historical Statistics*, pp.44-46; Vamplew, *Australians, Historical Statistics*, p.26; Figures for Industrial Assurance policies in New Zealand taken from Thomson, *A world*, p.59.

⁶⁸² *Friendly Societies: Report of the Registrar for New Zealand for the Year 1878*, in AJHR, Session II, section H-19, (1879), p.4.

⁶⁸³ *Friendly Societies: Report of the Registrar for New Zealand for the Year 1878*, p.16; No collecting societies are listed in *Friendly Societies: Report of the Registrar for New Zealand for the Year 1890*, in AJHR, Session II, section H-09, (1891) pp.12-15; the same goes for later reports, *Friendly Societies: Report of the Registrar for New Zealand for the Year 1920*, in AJHR, Session I-II, section H-01, (1921), pp.7-12.

The NHI scheme was repeatedly criticised for benefiting the life assurance companies and collecting societies that took ‘approved society’ status. These organisations used the scheme to access a vast pool of individuals and then sold them additional cover. It is therefore tempting to see the inter-war boom in the number of policies as a consequence of the Act. Yet even before 1911 friendly societies were losing out.⁶⁸⁴ Between 1900 and 1912 all of the major affiliated societies were struggling. The Foresters, the National United Order of Free Gardeners and the British Order of Ancient Free Gardeners actually lost members. The Rechabites were the most successful of the affiliated orders, but only grew 74.9% (see **table 5.15**). In contrast the number of industrial assurance and collecting friendly society policies increased by 107% and 71.9% respectively between 1900 and 1912.⁶⁸⁵ In short, the traditional affiliated orders were losing ground long before the NHI scheme came into force.

Table 5.15: Membership growth of ten large affiliated societies in Britain, 1906-1912 (1900 = 100).

| Society | % Growth of membership since 1900 (1900 = 100) | |
|--|--|-------|
| | 1906 | 1912 |
| MUIOOF | 103.9 | 122.1 |
| AOF | 97.0 | 97.3 |
| IOR | 141.2 | 174.3 |
| Ancient Order of Shepherds | 102.8 | 119.2 |
| Grand United Order of Oddfellows | 92.1 | 104.9 |
| National Independent Order of Oddfellows | 102.9 | 112.2 |
| National United Order of Free Gardiners | 94.7 | 84.0 |
| UAOD | 115.9 | 128.9 |
| The Order of Druids | 119.2 | 117.1 |
| British Order of Ancient Free Gardiners | 105.2 | 94.9 |

Source: Seventeenth abstract of labour statistics [Cd. 7733], pp.258-263.

⁶⁸⁴ Harris, *The Origins*, p.193.

⁶⁸⁵ Johnson, *Saving and Spending*, pp.16-19.

Conclusion

In the ‘who dunnit’ of the death of the mutual aid tradition the welfare state is frequently cast in the role of perpetrator and villain. The reality was much more complicated.⁶⁸⁶ A number of economists and historians have suggested that the NHI scheme harmed the friendly societies, yet few have subjected this claim to empirical scrutiny. It would be more accurate to see the NHI as ushering in an Indian summer for the traditional friendly societies – a period of temporary success late in the life of the movement. Focussing on a sample of courts of the Foresters, this chapter has demonstrated that the scheme had a marginal impact. The scheme led to a huge one off boost in members. The scheme did not lead to an increase in sickness claims on the voluntary side of approved courts. Moreover it seems that Lloyd George was correct in arguing that the policy would be financially beneficial. Commenting on the British scheme the New Zealand Registrar noted that because so many state members took up voluntary benefits ‘the Act has effected a welcome increase in the societies’ membership, and considerably strengthened the voluntary side of the business’.⁶⁸⁷

In Australasia the affiliated friendly societies continued to grow in size from 1900 to 1930. This was partly because the movement was at an earlier stage in its life cycle. As discussed in chapter 4, branches were also more socially and culturally vibrant in the Antipodes, and this may have made the friendly society movement more resilient. More critically the Australasian friendly societies faced little competition from industrial assurance companies and collecting friendly societies. When comparing Australasian and British trends between 1900-1930 there is little evidence that the 1911 Act had a significant negative effect. Overall this chapter supports Martin Daunton’s conclusion that ‘the political contingencies of 1911 were important but there were signs that the friendly societies and active participation would not have survived in any event.’⁶⁸⁸

⁶⁸⁶ Harris, *et al.*, ‘Sickness Insurance’, p.105.

⁶⁸⁷ *Friendly Societies: Report of the Registrar for New Zealand for the Year 1912*, in AJHR, Session I, section H-01, (1913), p.2.

⁶⁸⁸ Daunton, *State and Market*, p.265.

Chapter 6 – The not-so ‘Golden Age of fraternity’: Fraternal life and sickness insurance in the US, 1860-1920

‘The fraternal beneficiary system... weaknesses are found chiefly in unsound financiering, undue multiplication of orders and the competition among them’.⁶⁸⁹

B.H. Meyer, 1901

Introduction

The period between 1860 and 1920 in the US has been dubbed the Golden Age of fraternity’.⁶⁹⁰ In 1897 around ten per cent of the entire population participated in one of the major national fraternal associations and this figure was as high as 40% in some states (see **table 6.5** at end of chapter). Unsurprisingly the topic has attracted a great deal of historical attention. Most inquiries have proceeded on the basic assumption that the success of the fraternal movement was totally peculiar to America. One recent study boldly pronounced that ‘associating *was* American’.⁶⁹¹ Another has termed fraternalism a ‘uniquely American pattern of social behaviour’.⁶⁹² The notion that fraternal associations were in some sense ‘exceptional’ has obscured interesting similarities and differences with the British friendly societies. This chapter examines the ‘Golden Age of fraternity’ in the mirror of experience of the British friendly societies. There are three main research questions. Firstly, why did fraternal associations become so infatuated with the provision of life insurance? Secondly, how effective were fraternal life insurers? Thirdly, why did actuarial ideas have less impact in the US than in Britain?

⁶⁸⁹ B.H. Meyer, ‘Fraternal Beneficiary Societies in the United States’, *The American Journal of Sociology*, 6, 5, (Mar., 1901), in *Secret Societies*, p.212.

⁶⁹⁰ Harwood, ‘Secret Societies’, p.7.

⁶⁹¹ D.T. Gleeson and B.J. Buttimer, “‘We are Irish Everywhere’”: Irish Immigrant Networks in Charleston, South Carolina, and Savannah, Georgia’, *Immigrants and Minorities*, 23, no.2-3, (2005), p.185.

⁶⁹² McBride, ‘The Golden Age’, p.2.

Section 1: The rise of fraternal life insurance

The defining characteristics of a fraternal society were, broadly speaking: a system of autonomous branches, a democratic form of internal government, ritual practices, and the provision of mutual aid for members on a not-for-profit basis.⁶⁹³ To register as a fraternal society under state law an organisation needed to exhibit these features.⁶⁹⁴ W.E.B Du Bois noted that the fraternal association existed ‘partly [for] social intercourse’ and ‘partly [for] insurance’.⁶⁹⁵ All organisations combined these elements but the relative weight placed on mutual aid and sociability varied.⁶⁹⁶ The Freemasons offered mutual aid on an ad hoc basis and were highly ritualised. At the other end of the spectrum were organisations offering sickness and death benefits as a formal entitlement; for example, the Independent Order of Oddfellows (IOOF), the Ancient Order of United Workmen (AOUW) and the Modern Woodmen of America (MWA). Social considerations were also important, and fraternal associations appealed to a very basic desire for friendship. Even the actuary Walter Bayse acknowledged that ‘the privilege of attending a lodge and enjoying the fellowship of others is a feature of membership in benefit societies that should not be valued lightly.’⁶⁹⁷

The movement was extraordinarily successful, baffling contemporaries. In 1929 Henry David Thoreau complained that ‘the American has dwindled into an Odd Fellow’.⁶⁹⁸ In 1897 Albert Stevens estimated that there were 8.4 million members of fraternal associations. **Table 6.1** lists the largest ten associations in 1897. This chapter focuses on those societies providing formal benefits, and therefore does not cover Masonic, veteran, temperance or Anti-Catholic organisations. Using Cordery’s estimates this only excludes around 35% of members in 1915.⁶⁹⁹

⁶⁹³ Beito, “‘This Enormous Army’”, p.21; Buffman, *Modern Woodmen*, pp.4-5; Stevens, *Cyclopaedia*, pp.vi-vii, 70-72, 388-394.

⁶⁹⁴ *Proceedings of the 15th Annual Meeting of the National Fraternal Congress, 1901*, p.37. Hereafter *Proceedings of the NFC*, followed by session and year. Assessed 17/06/2015 at [<http://catalog.hathitrust.org/Record/000554055>].

⁶⁹⁵ P.L. Dunbar, ‘Hidden in Plain Sight: African American Secret Societies and Black Freemasonry’, *Journal of African American Studies*, 16, 4, (2012), p.625.

⁶⁹⁶ In his *Cyclopaedia*, Stevens broke these bodies into 11 types, pp.xvi-xv.

⁶⁹⁷ Bayse, *History*, pp.19-20.

⁶⁹⁸ Thoreau, ‘Resistance to Civil Government’, p.v.

⁶⁹⁹ Cordery, ‘Mutual Benefit Societies’, p.109.

Table 6.1: Ten largest fraternal associations in the US in 1897.

| Society | Members | % share | Function |
|---|----------------|----------------|--|
| IOOF | 755508 | 20.67 | Friendly society/masonic fraternal |
| Freemasons | 735437 | 20.12 | Masonic |
| Knights of Pythias | 452022 | 12.37 | Masonic with Friendly society features |
| Grand Army of the Republic | 358218 | 9.80 | Veterans association |
| AOUW | 347990 | 9.52 | Fraternal life insurer |
| Modern Woodmen of America | 259584 | 7.10 | Fraternal life insurer |
| Knights of Macabees | 217068 | 5.94 | Fraternal life insurer |
| Royal Arcanum | 195105 | 5.34 | Fraternal life insurer |
| Junior Order of United American Mechanics | 175520 | 4.80 | Anti Catholic 'Nativist' |
| Independent Order of Good Templars | 158787 | 4.34 | Temperance fraternal |

Source: Stevens, *Cyclopaedia*, p.115.

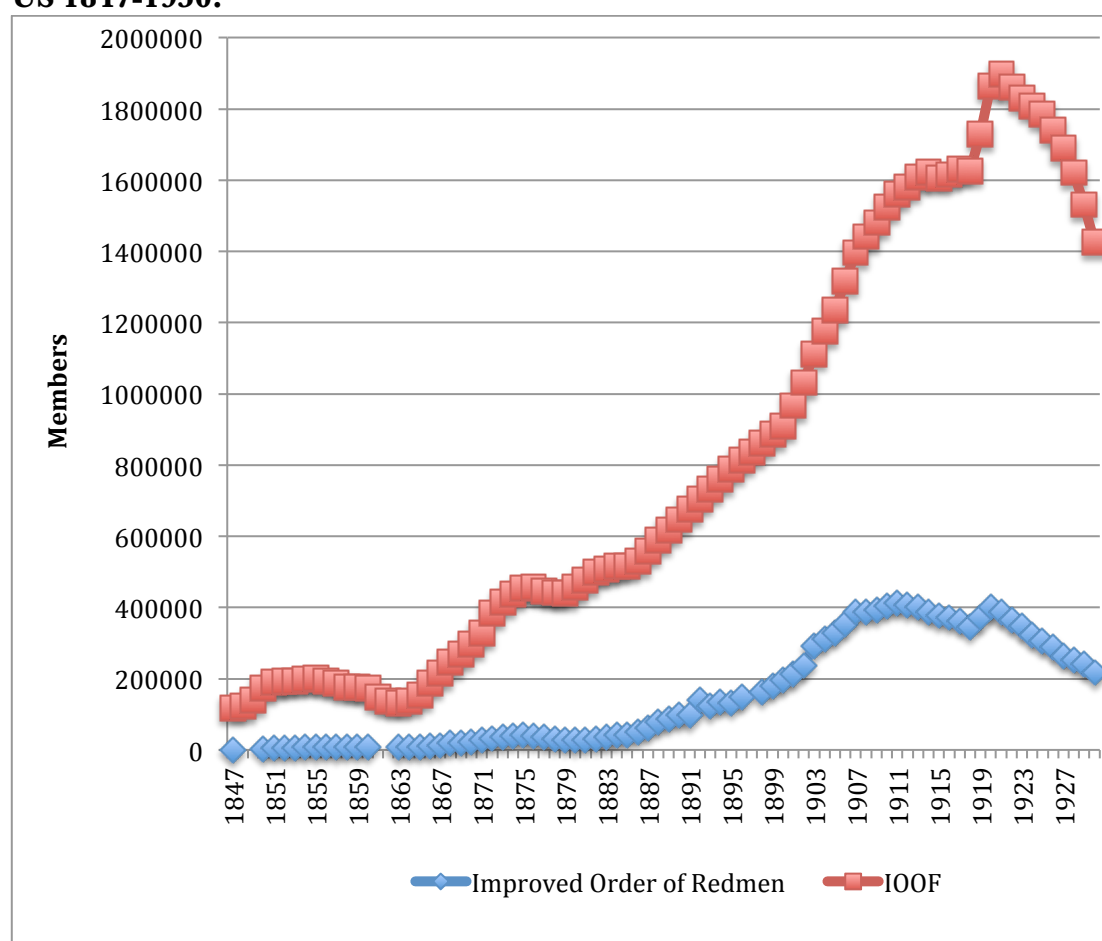
A number of societies could trace their roots back to the late eighteenth and early nineteenth centuries and were directly descended from British organisations, like the Oddfellows and the Foresters.⁷⁰⁰ The IOOF and the Improved Order of Redmen were two of the oldest fraternal in North America, founded in 1817 and 1773. Both continued to operate sickness insurance schemes until the early twentieth century and both grew at a rapid rate from the 1870s (see **figure 6.1**).⁷⁰¹ Branches followed in the wake of population growth. At the 1835 meeting of the Grand Lodge of the US one deputy noted that 'the star of Odd Fellowship, like that of empire, was taking its way westward' and in 1869 the Grand Lodge was proud to be the first fraternal organisation to cross the continent.⁷⁰² As the maps in **figures 6.2** and **6.3** demonstrate, between 1850 and 1913 the IOOF grew into a vast organisation, and with 17,000 branches littered across the continent there was scarcely a community in America untouched by Oddfellowship.

⁷⁰⁰ Such as the Oddfellows, J.L. Ridgely, *History of American Odd Fellowship: The First Decade* (Baltimore, 1878) p.4.

⁷⁰¹ Litchman, *Official History*, pp.480-1; P. Donaldson, *The Odd-fellows' Text-Book and Manual* (Philadelphia, 1878), p.41; Stillson, *The Official History*, p.805.

⁷⁰² Stillson, *The Official History*, p.86; P.V. Sellars, *The History of the IOOF in the City of San Francisco* (San Francisco, 2007), p.81.

Figure 6.1: Membership of the Improved Order of Redmen and IOOF, US 1847-1930.



Note: Source: C.B. Burke, 'Membership and income of fraternal and service organisations, by organisation: 1847-1999', Tables Bg265-279, in Carter, *et al.* (eds.) *Historical Statistics of the United States*; Figures for the IOOF pre-1886, Ross, *Odd Fellowship*, pp.660-662; Post-1886 based on *Proceedings of the Sovereign Grand Lodge of the IOOF of the US, Baltimore, M.D.*, 1870-1930 – data compiled by Herbert Emery.⁷⁰³

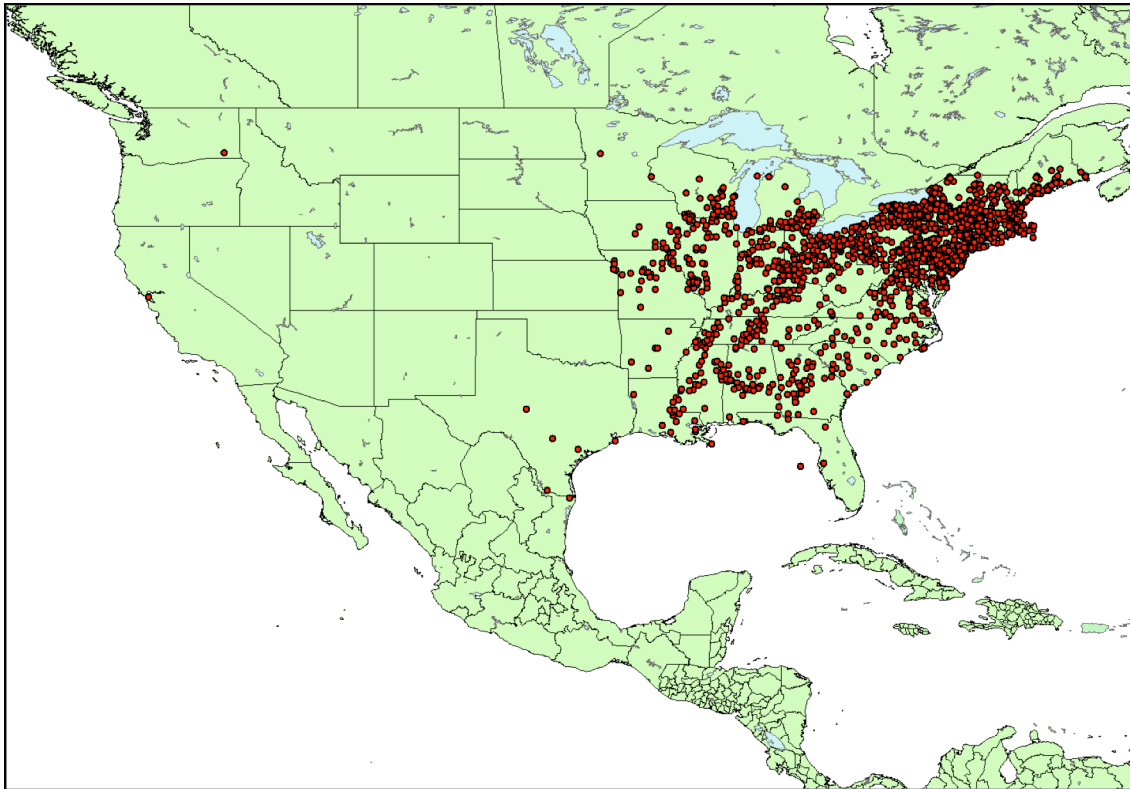
The post-Civil War period witnessed a decisive shift in the fraternal movement. The formation of the Ancient Order of United Workmen (AOUW) marked the rise of the new fraternal life insurance orders. Founded by John Jordan Upchurch in 1868, the AOUW combined the ritualism of Freemasonry with the operation of life insurance.⁷⁰⁴ The order provided informal care for the sick, but this was a secondary priority.⁷⁰⁵ The main focus was life insurance. The actuary Miles Dawson suggested that Upchurch copied the equal levy system used by the British

⁷⁰³ These proceedings were held in Baltimore by the Grand lodge of Maryland, but a large amount of the records have been destroyed. Herbert Emery was kind enough to share these data with me.

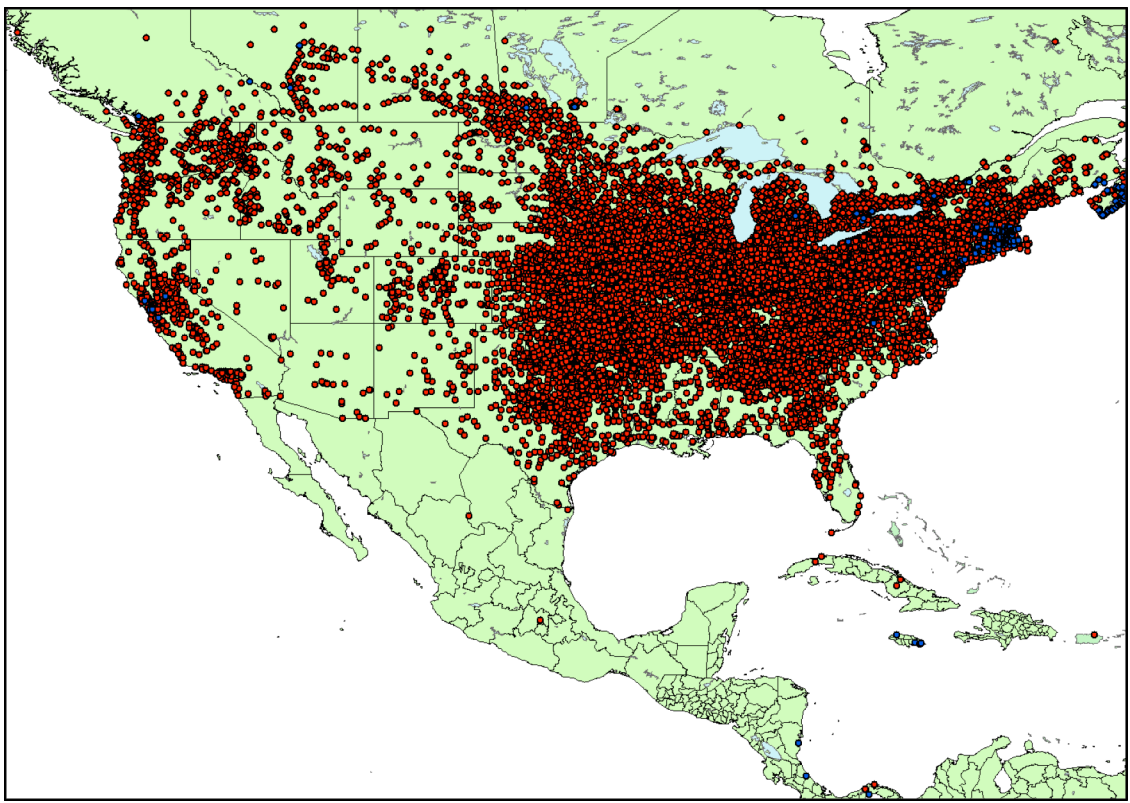
⁷⁰⁴ M.W. Sackett, *Early History of Fraternal Beneficiary Societies in America* (Meadville, 1914), p.25; Bayse, *History*, pp.10-14; Kaufman, *For the Common Good?*, pp.39-40.

⁷⁰⁵ *Digest of the Constitution, Laws and Decisions of the Ancient Order of Workmen* (Buffalo, 1879), p.102.

Figures 6.2 and 6.3: Geographical distribution of lodges of the Oddfellows in 1850 and 1913, North America.



Source: Data for 1850 from W.W. Wallace, *The Oddfellows' Keepsake: A Concise History of Odd-Fellowship in the US* (New York, 1850), pp.240-334.

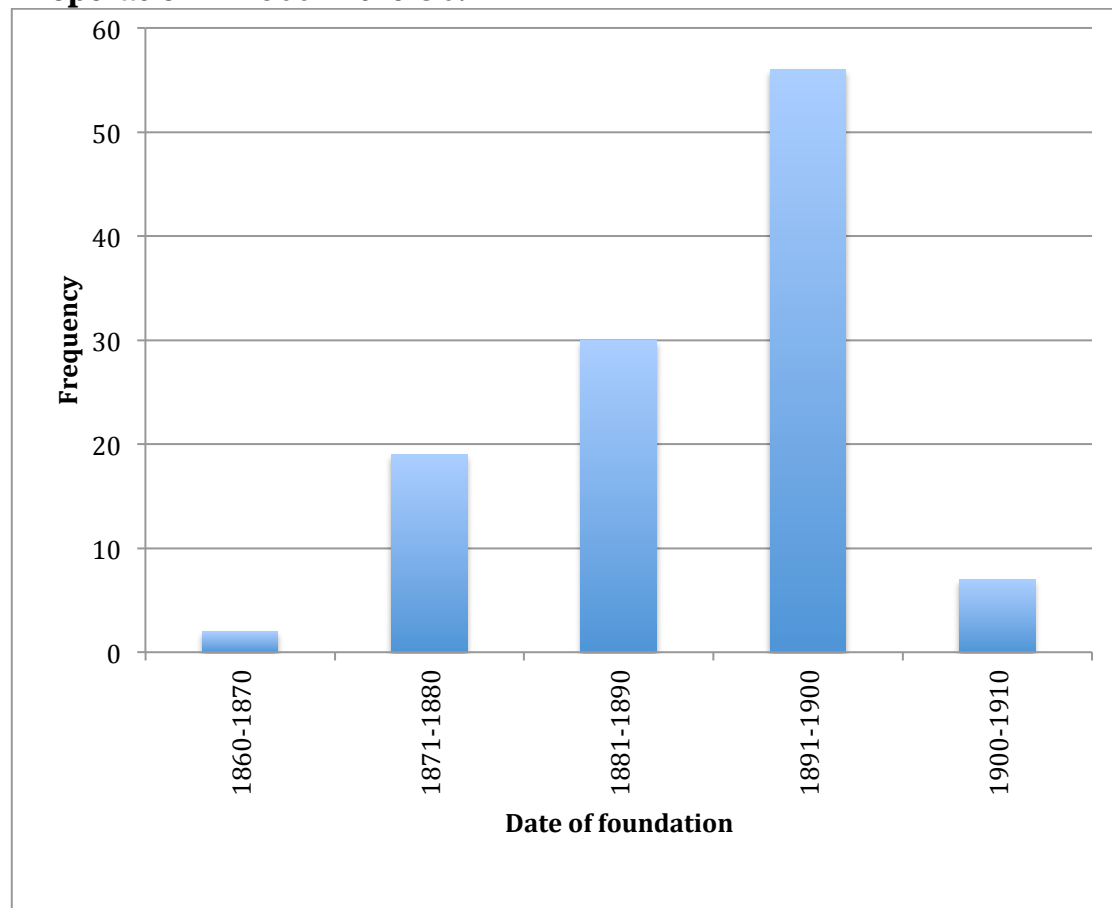


● = IOOF lodge ● = MUOOF lodge

Source: *Directory of Subordinate Lodges of the IOOF on the Continent of North America* (Boston, 1913).

affiliated societies to fund death benefits.⁷⁰⁶ In contrast MW Sackett, a prominent official in the AOUW, recalled that Upchurch simply saw life insurance as a complement to ritual practices that were designed to ‘bind’ members together.⁷⁰⁷ Whatever the intention the idea took hold. A number of these ‘new’ style fraternal associations were founded following the Civil War. **Figure 6.4** is based on information collected by the actuary Abb Landis in 1906. The number of life-insurance fraternal associations increased dramatically in the 1870s, and again in the 1890s. The total number of participants will never be established with any exactitude but the National Fraternal Congress (NFC) estimated that it had a combined membership of half a million in 1886 and nine million in 1920; a 1700% increase in just 34 years.⁷⁰⁸

Figure 6.4: Foundation date of 114 life insurance fraternal associations in operation in 1906 in the US.



Source: A. Landis, *Analyses of Fraternal Societies and Illustrations of Premium Computations* (Nashville, TN, 1906).

⁷⁰⁶ M. Dawson, *Assessment Life Insurance* (New York, 1896), p.23.

⁷⁰⁷ Sackett, *Early History*, p.41.

⁷⁰⁸ D. Beito, ‘Mutual Aid, State Welfare and Organized Charities: Friendly Societies and the “Deserving” and “Undeserving” Poor, 1900-1930’, *Journal of Policy History*, 5, 4, (1993), pp.420-1; Kaufman, *For the Common Good?*, pp.44-5.

In terms of their social composition American fraternal associations had fewer unskilled workers than the British friendly societies and had a higher proportion of white-collar members.⁷⁰⁹ Figures collected by the Connecticut Bureau of Labour statistics in 1891 showed that over fifty per cent of participants were skilled workers and a further 26% were in the professions or business (**table 6.2**). Source material on the occupations of members is, however, very patchy and often relates to individual branches. Clawson has compiled branch level data showing that some non-Masonic fraternal associations were overwhelmingly blue-collar (see **table 6.3** and **figure 6.5**).⁷¹⁰ Elsewhere Blumin has argued that Oddfellowship was a ‘distinctively working class movement’ that only began to attract middle class and professional members from the 1870s.⁷¹¹ Therefore whilst fraternal were more cross-class than the friendly societies, they were cheap enough to allow a large number of blue-collar workers to join.

Table 6.2: Occupations of members of fraternal associations in Connecticut in 1891.

| Occupation | % of members |
|----------------------|---------------------|
| In business | 21.16 |
| In professions | 5.33 |
| Well-paid mechanics | 38.65 |
| Lower paid mechanics | 20.28 |
| Clerks | 11.20 |
| Farmers | 0.66 |
| Housewives | 2.72 |

Source: C.R. Henderson, ‘Industrial Insurance IV; The Insurance of the Fraternal Societies’, *American Journal of Sociology*, 13, 1, (Jul., 1907), p.36.

⁷⁰⁹ Clawson, *Constructing Brotherhood*, p.107.

⁷¹⁰ Clawson, ‘Fraternal Orders’, p.686.

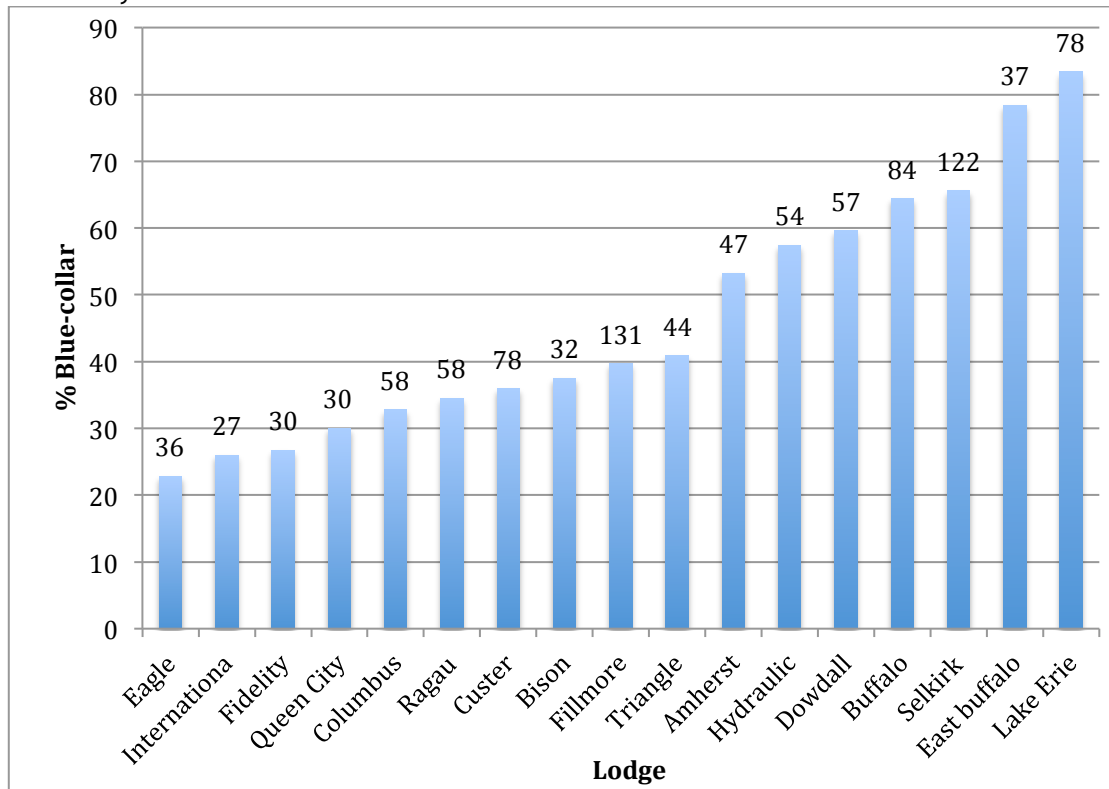
⁷¹¹ Blumin, *The Emergence of the Middle Class*, pp.223-5.

Table 6.3: Blue-collar representation in a sample of fraternal lodges in the US.

| Location | Date | Number in sample | % Blue-collar |
|---------------------------------|-----------|------------------|---------------|
| <i>Freemasons Lodges</i> | | | |
| Oakland | 1890 | 169 | 20 |
| Providence – Lodge 1 | 1874 | 284 | 32 |
| Providence – Lodge 2 | 1898 | 105 | 18 |
| Boston – Lodge 1 | 1899 | 70 | 4 |
| Boston – Lodge 2 | 1901 | 96 | 16 |
| Boston – Lodge 3 | 1901 | 99 | 27 |
| <i>Non- Freemasons lodges</i> | | | |
| Providence - Red men | 1872 | 40 | 53 |
| Providence - Knights of Pythias | 1875 | 79 | 30 |
| Providence – IOOF | 1877 | 107 | 46 |
| Providence – IOOF | 1896 | 99 | 42 |
| Lynn – IOOF | 1908 | 229 | 74 |
| Lynn – IOOF | 1914 | 261 | 80 |
| Belleville – Knights of Pythias | 1874-1884 | 24 (12 missing) | 79.1 |
| Belleville – Knights of Pythias | 1874-1884 | 15 (0 missing) | 40.0 |
| Belleville – Knights of Pythias | 1874-1884 | 53 (0 missing) | 43.4 |
| Buffalo – Knights of Pythias | 1891 | 24 (12 missing) | 49.8 |

Source: Clawson, 'Fraternal Orders', pp.678, 680-2.

Figure 6.5: Blue-collar representation in lodges of Knights of Pythias in Buffalo, 1891.



Note: Number of members in sample in data label. Source: Clawson, 'Fraternal Orders', pp.684-5.

There are a number of explanations for the broad popularity of fraternal associations. The ‘modernisation thesis’ presents these organisations as a response to urbanisation, industrialisation and immigration. Fraternal societies were a response to the rapid, and disconcerting, social transformations of the era – an ‘asylum from disorder and uncertainty’ in the words of Putnam.⁷¹² This approach has been undermined by revisionist work demonstrating that these macro-structural forces have little explanatory power when tested statistically.⁷¹³ Putnam and Gamm have argued that fraternal associations were at their most successful in small and homogeneous communities – communities with a large stock of ‘social capital’.⁷¹⁴ Skocpol and others have argued that the post-Civil War boom was a consequence institutional factors. The constitution and federal system provided an institutional model for clubs as well as an infrastructure that supported them.⁷¹⁵ Equally important was the emergence of large ‘trans-local’ federations (like the Oddfellows) that were highly expansionist, resilient and popular because of their democratic form of internal government.⁷¹⁶ Mark Carnes has placed ritual activities at the centre of his account of the popularity of fraternalism; these rituals served to reaffirm an adult masculinity that contemporaries felt had lost much of its virility.⁷¹⁷ More recently Levy has argued that economic factors were critical. Life insurance fraternal, like the AOUW, drove the increase in members, which Levy sees as a response to a crisis in the commercial life industry in the 1870s.⁷¹⁸

In 1907 Charles Henderson noted that ‘it is in the sphere of “life insurance” that the fraternal societies of the United States have thus far found their principal

⁷¹² Putnam, *Bowling Alone*, p.389; see also A. Schlesinger, *The Rise of the City, 1878-1898* (New York, 1933), pp.288-290; R.H. Wiebe, *The Search for Order* (London, 1967), pp.55-58, 66-73; R. Berthoff, *An Unsettled People: Social Order and Disorder in American History* (New York, 1971) pp.444-447; M. Keller, *Affairs of State: Public Life in Late Nineteenth Century America* (Cambridge, 1977), p.517; S. Cummings (ed.), *Self-Help in Urban America: Patterns of Minority Economic Development* (Port Washington, 1980); Blumin, *The Emergence of the Middle Class*, pp.221-229; Clawson, *Constructing Brotherhood*; Clawson, ‘Fraternal Orders’, p.41; Doyle, ‘The Social Function’, pp.333-355; Dumenil, *Freemasonry*; Putney, ‘Service over Secrecy’, pp.179-190; A. Pflugrad-Jackisch *Brothers of a vow: secret fraternal orders and the transformation of white male culture in Antebellum Virginia* (Athens, G.A., 2010), pp.51-52.

⁷¹³ Crowley and Skocpol, ‘The Rush’ pp.813-829; Gamm and Putnam, ‘The Growth’, pp.511-557.

⁷¹⁴ Gamm and Putnam, ‘The Growth’, pp.548-553.

⁷¹⁵ Schlesinger, ‘Biography’, pp.5, 11; Skocpol *et al.*, ‘A Nation’ pp.533, 541; Crowley and Skocpol, ‘The Rush’, pp.814-815.

⁷¹⁶ Skocpol *et al.*, ‘A Nation’.

⁷¹⁷ Carnes, *Secret Ritual*, pp.1-16.

⁷¹⁸ J. Levy, *Freaks of Fortune: The Emerging World of Capitalism and Risk in America* (Cambridge, 2012) pp.191-231

mission.⁷¹⁹ It is impossible to understand the popularity of fraternal life insurance without understanding that it was a countermovement against commercial life insurance.⁷²⁰ Following the financial panic of 1873 ‘old-line’ life insurers were beset by bankruptcies and scandal. Between 1868 and 1877 ninety-eight companies closed and thirty-two failed outright resulting in \$35 million in losses. Public perception of the industry was shaken. Between 1872 and 1880 the value of life insurance in force fell by a half.⁷²¹ In 1876 a New York pamphlet on ‘Life Insurance Robbery’ proposed that the government take over from these ‘greedy speculators’. The President of the Prudential Insurance Company looked back on the 1870s as a time when there was ‘very little faith in insurance principles’.⁷²² In 1914 Sackett, one of the founders of the AOUW, recalled that ‘the rates were very high and confidence in the system was, by no means, firmly established so that only those who were financially well to do and who were willing to take a chance of the future solvency of the company were holders of policies’.⁷²³ Dawson went further and argued that the fraternal movement ‘arose primarily from the unjust practices... of the regular companies.’⁷²⁴

Old-line companies were also seen as exorbitantly expensive. Most operated on the ‘natural’ premium plan, whereby an individual paid the actual cost of insurance at each age at the start of the year, plus an additional sum to furnish a reserve. The ‘insurance reserve’ ended up being vast, allowing companies to speculate with the accumulated capital.⁷²⁵ The scheme was actuarially sound but the cost increased with age until it became prohibitive.⁷²⁶ Consequently a large proportion of individuals allowed their memberships to lapse, leaving behind their contributions and generating enormous profits for the companies. Dawson argued that the legal requirement to hold reserves and the profit motive pushed life insurance outside the reach of many middle class and blue-collar individuals.⁷²⁷

⁷¹⁹ Henderson, ‘Industrial Insurance IV’, p.39; Bayse, *History*, pp.26-7.

⁷²⁰ Dawson, *Assessment*, p.iii.

⁷²¹ Levy, *Freaks*, p.197.

⁷²² *Ibid.*, p.198; Stevens, ‘Fraternal Insurance’, p.217.

⁷²³ Sackett, *Early History*, p.43.

⁷²⁴ Dawson, *Assessment*, p.11.

⁷²⁵ B.H. Meyer, ‘Fraternal Insurance in the United States’, *Annals of the American Academy of Political and Social Science*, 17, (March, 1901), p.91.

⁷²⁶ *Proceedings of the 15th Annual Meeting of the National Fraternal Congress, 1901*, pp.319-320.

⁷²⁷ Dawson, *Assessment*, p.11.

Fraternal life insurance was much cheaper. The basic idea was that if the profit motive, expensive cost of management and need to hold reserves were removed, then the fraternal could offer affordable cover.⁷²⁸ Indeed fraternal associations had some distinct market advantages over commercial companies. Critically, societies were able to draw on good will of members. The AOUW pioneered combining the lodge system and Masonic ritual practices with life insurance.⁷²⁹ Its founder, Upchurch, believed that this blend would ‘bring together the members of the new society by solemn obligation, teaching them the tenets of unselfish brotherhood.’⁷³⁰ Albert Stevens called the lodge system the ‘steel wire within the rope of brotherhood which tends to hold the membership in line’.⁷³¹ A sense of mutual obligation helped overcome adverse selection because the existing members carefully vetted new members.⁷³² The culture of fraternity also helped reduce transaction costs.⁷³³ The cost of management in the 25 largest insurance companies was 18.3% receipts but just 8.4% in the 25 largest fraternal associations.⁷³⁴ Members took responsibility for many of the day-to-day administrative activities; collecting dues, dispensing benefits, monitoring members and recruiting new individuals. In the words of Henderson ‘in the lodge every member is a solicitor who works quite zealously without pay.’⁷³⁵

The critical advantage of fraternal associations was that they could operate on the ‘assessment’ plan. Unlike stock and mutual reserve companies, initially fraternal insurers did not collect reserves or hold assets. Indeed one fraternal mantra was ‘Keep your reserves in your pocket’.⁷³⁶ Assessment insurance was a current-cost plan; societies only collected enough in revenue to cover annual expenditure.⁷³⁷ The early fraternal insurers like the AOUW effectively ‘passed the hat’, paying claims as and

⁷²⁸ Sackett, *Early History*, p.74.

⁷²⁹ Bayse, *History*, pp.9-14; Lehman, ‘It takes’, p.62.

⁷³⁰ Bayse, *History*, p.45; see N.G. Gist, ‘Culture Patterning in Secret Society Ceremonials’, *Social Forces*, 14, 4, (May, 1936), in *Secret Societies*, p.184.

⁷³¹ Stevens, ‘Fraternal Insurance’, pp.215, 229.

⁷³² Balloting new members and carefully investigating their past; see M.L Marks and W.A. Kitts, *Ancient Order of Forester’s Manual: A Digest and Commentary on the General Laws and Customs of the AOF under the Subsidiary High Court of the US* (Washington, 1880), p.17.

⁷³³ Dawson, *Assessment*, p.22.

⁷³⁴ Henderson, ‘Industrial Insurance IV’, pp.36-7.

⁷³⁵ *Ibid.*, p.36; A. Landis, ‘Life Insurance by Fraternal Orders’, *Annals of the American Academy of Political and Social Science*, 24, (Nov., 1904), in *Secret Societies*, p.240.

⁷³⁶ Dawson, *Assessment*, p.3.

⁷³⁷ Beito, *From Mutual Aid*, p.131.

when they arose. This was known as the ‘post-mortem’ assessment system. A members ‘certificate’ normally specified the amount they would be charged, the rate, when an ‘assessment’ was required, but the society reserved the right to increase this rate and charge as many assessments annually as required. In the early days of the movement it was not uncommon for benefits to be varied as required.⁷³⁸ This financial model only functioned because of the ties of mutual obligation and good will that bound members together.⁷³⁹ An individual had to trust that the other members would pay their relatives when they passed away. Most societies quickly moved over to the ‘pre-mortem’ method, holding one assessment in advance, but the pay-as-you-go principle was the same.⁷⁴⁰ Reserves were seen as expensive and unnecessary, a ‘fifth wheel for a wagon’ as another slogan went. Fraternal insurance rejected the need for financial capital in the form of reserves and supplemented it with social capital. Consequently fraternal were considerably cheaper than old-line companies. In 1896 the median annual contributions paid by members of the 29 leading fraternal orders was just over \$10 per \$1000 insured. The comparable figure in leading old-line companies was around \$20 at age 25, rising to \$48 at 50.⁷⁴¹

Another reason for the success of fraternal life insurers relative to commercial entities was that the two sectors were governed by different rules. Zanjani has argued that in the late nineteenth century the life insurance market was divided into two sectors. The regulated sector, populated by legal reserve insurers (both stock and mutual), was subject to a high degree of state oversight. Policyholder interests were protected by a myriad of laws and procedures, including deposit requirements, annual financial reports, annual valuations, and various restrictions on market conduct. Fraternalists like Dawson claimed that the legal reserve requirements had the effect of increasing the cost of cover.⁷⁴² The unregulated sector consisted of fraternal insurers, which were exempt from regulation and from most of the taxes that financed regulatory activity.⁷⁴³ Consequently fraternal insurers were under no pressure to meet certain minimum financial and actuarial standards, allowing them to

⁷³⁸ Dawson, *Assessment*, p.32.

⁷³⁹ Sackett, *Early History*, p.26; G. Zanjani, ‘The Rise and Fall of the Fraternal Life Insurer: Law and Finance in U.S. Life Insurance, 1870-1920’, Unpublished Working Paper (August 2003), p.8; Hence the importance of ritual, Metz, ‘Sweet Land of Secrecy’, pp.55-56.

⁷⁴⁰ Dawson, *Assessment*, p.4.

⁷⁴¹ Beito, *From Mutual Aid*, pp.311-312.

⁷⁴² Dawson, *Assessment*, p.121.

⁷⁴³ Zanjani, ‘The Rise’, pp.4-5.

boom at an unprecedented rate between in the final quarter of the nineteenth century.

Section 2: Fraternal sickness insurance

In contrast to the British friendly societies, fraternal associations in the US were less focused on the provision of sickness insurance.⁷⁴⁴ Daunton has estimated that in 1905 only 13 of the 168 fraternal life insurance societies offered sickness benefits as a formal entitlement.⁷⁴⁵ However a great many followed the practice of the Freemasons and offered relief to infirm members on a case-by-case basis, usually administered by local branches.⁷⁴⁶ The NFC was specifically for life insurance fraternal, but to qualify for membership the branches of an organisation had to engage in the ‘visitation of the sick and relief of distressed’.⁷⁴⁷ Some societies went a step further, allowing individual branches to choose to offer sickness benefits. In 1897 Stevens found that 11 of the 31 largest life insurance societies fit into this category, covering 769,567 members.

Other fraternal associations offered members sickness benefits as a formal entitlement. The IOOF and the Improved Order of Redmen, two of the oldest and largest organisations in the US, continued to operate sickness insurance schemes until the early twentieth century (see **figure 6.2** for growth).⁷⁴⁸ So too did the Ancient Order of Foresters and its North American spin off, the Independent Order of Foresters, with 16,000 and 70,000 members in 1913 and 1895 respectively.⁷⁴⁹ Yet with 1.9 million members in 1920 the IOOF was the most important sickness insurer in the US. Daunton has incorrectly argued that the IOOF was a Masonic organisation that did not provide sickness benefits.⁷⁵⁰ The IOOF did dismantle its benefit system in the early twentieth century, and in 1919 Bayse observed that it was

⁷⁴⁴ AALL, ‘Brief for Health Insurance’, *American Labor Legislation Review*, 6, (1916), pp.184, 202; I. Fisher, ‘The Need for Health Insurance’, *American Labor Legislation Review*, 7, (1916), p.13.

⁷⁴⁵ Daunton, *State and Market*, p.294.

⁷⁴⁶ *Digest*, p.102; and in the Royal Arcanum, see MD Oronhyatekha, *History of the Independent Order of Foresters* (Toronto, 1894), p.842; *By Laws of Columbus Council No.714; Royal Arcanum, Columbus, Georgia, May 14th 1903* (Columbus, GA, 1903), p.3.

⁷⁴⁷ Stevens, *Cyclopaedia*, p.166.

⁷⁴⁸ Litchman, *Official*, pp.480-1; Donaldson, *The Odd-fellows’ Text Book*, p.41; Stillson, *The Official History*, p.805.

⁷⁴⁹ Marks and Kitts, *Ancient Order of Foresters’ Manual*, p.189; Oronhyatekha, *History*, p.861; see source note in table 0.1.

⁷⁵⁰ Daunton, *State and Market*, p.294.

‘in no way connected with the fraternal benefit system’.⁷⁵¹ However up until then the IOOF did offer sickness insurance. In 1850 the *Oddfellows Keepsake* claimed ‘that the mode of relieving sick or needy brothers... here is a compulsory measure... provided a brother is clear of the books, he is entitled, as a matter of rights, to his sickness benefits’.⁷⁵² Successive rulebooks and guides reiterated that sickness benefits were guaranteed.⁷⁵³ In 1897 Stevens noted that in the IOOF relief was ‘based on a business arrangement, a practical contract to pay such and such sums...; [the order] assists needy members because it is their due’.⁷⁵⁴

The unevenness of fraternal sickness insurance and the fact that there was no central government office collecting information on fraternalists, as in Britain, makes it impossible to estimate the number of individuals with cover. In some industries fraternal and trade union sickness insurance was very popular. A survey of Michigan furniture workers in 1889 showed that sickness insurance was more popular than life insurance at every age (see **figure 6.6**).⁷⁵⁵ Yet it would be inappropriate to extrapolate these local-level results to the entire US. The California social insurance commission of 1917 undertook the most comprehensive survey of fraternal sickness insurance but only focused on California. The commission had considerable trouble collecting information and had to conduct ‘first hand communication with the various local branches of more than twenty orders’.⁷⁵⁶ Twenty-one of fifty-nine orders provided all members with sickness benefits, covering around 35% of all fraternal members in the state. Overall the commission estimated that 46% of fraternal members had access to sickness benefits in some form (see **table 6.4**), but this was a very rough guess because it was impossible to determine how many members were entitled to sickness benefits in orders that made it optional at the lodge level. The commission concluded that through fraternal associations, trade unions and commercial schemes ‘probably not more than one-third of California wageworkers

⁷⁵¹ Bayse, *History*, p.35.

⁷⁵² Wallace, *The Oddfellows Keepsake*, p.142.

⁷⁵³ Donaldson, *The Odd-fellows’ Text-Book*, p.41; *Proceedings of the Grand Lodge of the IOOF of the State of Wisconsin, 45th Annual Session, 1891* (Wisconsin, 1891), p.21. Hereafter all proceedings named *Proceedings of GL of Wisconsin*, followed by session and year, available at [<http://catalog.hathitrust.org/Record/011984928>].

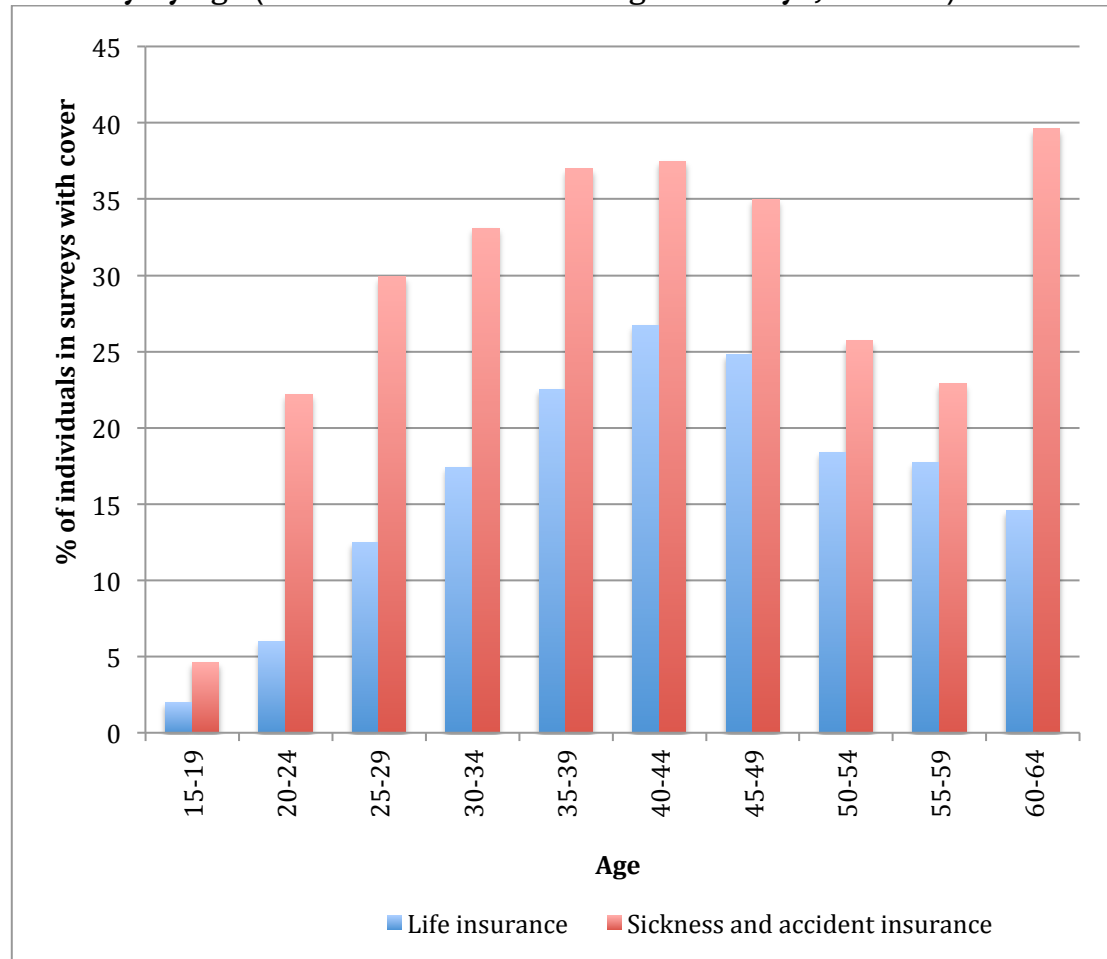
⁷⁵⁴ Stevens, *Cyclopaedia*, pp.261-2.

⁷⁵⁵ R. Whaples and D. Buffum, ‘Fraternalism, Paternalism, the Family, and the Market: Insurance a Century Ago’, *Social Science History*, 15, 1, (1991), p.102.

⁷⁵⁶ *Report of the Social Insurance Commission of the State of California* (Sacramento, 1917), p.81.

have voluntarily insured themselves against the hazard of sickness, and these voluntary efforts reach only an extremely small proportion of the people who need it'.⁷⁵⁷

Figure 6.6: Fraternal insurance purchased in the Michigan furniture industry by age (based on household budgets surveys, 1888-90).



Source: Whaples and Buffum, 'Fraternalism', p.102.

In seeking to explain the relative weakness of sickness insurance in the US a number of scholars have focused on demand side factors. George and Herbert Emery have argued that fraternal sickness insurance receded in the twentieth century because members developed the capacity for self-insurance, mainly through individual capital accumulation.⁷⁵⁸ In a similar vein Emery and John Murray have argued that campaigns for compulsory state administered sickness insurance at the

⁷⁵⁷ Report, p.16.

⁷⁵⁸ H. Emery, 'From Defining Characteristic to Vitiating of Principle: The History of the Odd Fellows' Stipulated Sick Benefit and its Implications for Studying American Fraternalism', *Social Science History*, 30, 4, (2006), pp.479-500; Emery and Emery, *A Young Man's*, pp.25-80;

Table 6.4: Extent of fraternal sickness insurance cover in California in 1917.

| Class of society | Number of orders | Total membership | Members in sick benefit department |
|--|-------------------------|-------------------------|---|
| Orders in which all lodges maintained sick benefits | 21 | 223175 * | 223175 |
| Orders in which sick benefit were optional for lodges (accurate data) | 6 | 60445 | 46653 |
| Orders in which sick benefit were optional for lodges (Approximate data) | 10 | 95719 ** | 14548*** |
| Orders in which sick benefits were optional for individual members | 8 | 103756 | 6844*** |
| Total with some form of sickness insurance | 45 | 483095 | 291220 |
| Orders which did not maintain sick benefit | 14 | 147372 | |
| Total | 59 | 630467 | |
| Rough estimate of % of all fraternal members with sickness benefits | | | 46.19 |

Note: * Membership of two not known, ** Membership of one not known, *** Impossible to determine the membership of five orders. *Source:* *Report*, p.89.

beginning of the twentieth century also failed because of a lack of demand; individuals were adequately covered through trade union, work based and fraternal schemes, and had sufficient contingent savings to weather bouts of illness.⁷⁵⁹

Emery and Emery have presented the most challenging argument for the decline of fraternal sickness insurance in the US. Many studies assume that fraternalism was ‘crowded out’ by government and commercial insurance. This explanation is problematic in the case of the US because the IOOF, one of the largest fraternal sickness insurers in the world, autonomously dismantled its sickness benefit scheme between 1890 and 1930. This was long before competition emerged. Emery and Emery argue that this was a consequence of the changing preferences of members. For much of its history the IOOF was a ‘young man’s benefit society’ –

⁷⁵⁹ Emery, “‘Un-American’ or unnecessary?”, pp.68-81; H. Emery, ‘America’s rejection of government health insurance in the progressive era: Implications for understanding the determinants and achievements of public insurance of health risks’, in Harris, (ed.), *Welfare and Old Age*, pp.121-136; Murray, *Origins of American Health Insurance*, pp.5, 35, 151-153; following on from D.M. Fox ‘The decline of historicism: the case of compulsory health insurance in the United States’, *Bulletin of the History of Medicine*, 57, 4, (1983), pp.596–610.

members joined when they were young and had meagre savings. As members aged the risk of falling sick increased, which increased the demand for insurance. However with age members also developed the capacity to self-insure through savings. Moreover once members were married and had children they could, in theory, respond to illness by relying on the earnings of other members of the household.⁷⁶⁰ Most members joined young and left after a short spell. Emery and Emery assume that those that remained did so for non-economic reasons, given that they too would have been building a family and accumulating capital. Thus the opportunity cost of the benefit scheme actually rose with an aging membership, and many members came to see it as an expensive irritation. The internal logic of the 'young man's society' led the IOOF to dismantle its sickness benefits scheme state-by-state between 1890 and 1930.⁷⁶¹

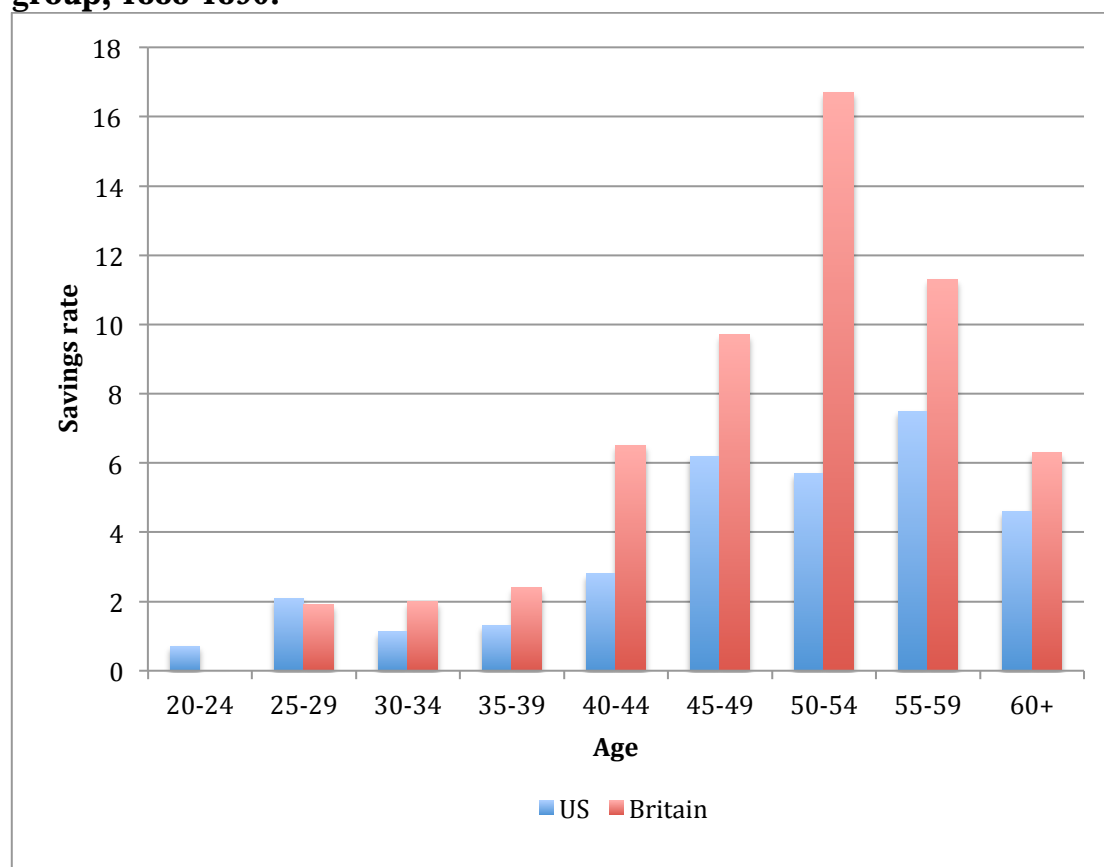
The demand side explanation of the weakness of fraternal sickness insurance in the US is unconvincing when placed in a comparative perspective. It fails to account for the relative popularity of the friendly societies in Britain. According to the model higher savings rates were negatively correlated with the popularity of fraternal sickness insurance. The 1888-1890 household budget surveys of the US and Britain shows that British workers had higher median savings rates, however measured.⁷⁶² Moreover median savings rates were higher in most age cohorts (see **figure 6.7**). If personal savings were a substitute for fraternal sickness insurance then fraternal sickness insurance should have been weaker in Britain than the US, when in reality the reverse was true.

⁷⁶⁰ Emery, 'From Defining Characteristic', pp. 479-481.

⁷⁶¹ Emery and Emery, *A Young Man's*, pp.25-80; Emery, 'From Defining Characteristic', pp.479-500.

⁷⁶² Emery, 'America's rejection', pp.132.

Figure 6.7: Median household savings rate in Britain and the US by age group, 1888-1890.



Source: Emery 'America's rejection', p.134. Note: Calculated as surplus capital as a percentage of husband's income.

Second, the Emerys' argument implies that the factors influencing participation in fraternal sickness insurance organisations must have been different in the US and Britain, given that the British friendly societies did not dismantle their sickness benefit schemes in the twentieth century. This is highly doubtful. Oxley and Horrell have used household budget surveys from 1888-1890 to examine the variables that influenced participation in friendly societies in Britain. Whaples and Buffum have undertaken the same exercise for fraternal sickness insurance in 1889 in the US. These studies show that households were behaving in analogous ways both sides of the Atlantic. An increase in household income was associated with an increased probability of participation.⁷⁶³ Neither study tested the impact of homeownership and cash savings, but it is likely that in Britain as in the US, private capital accumulation was a substitute for participation in a prudential association.⁷⁶⁴

⁷⁶³ Horrell and Oxley, 'Work and Prudence', p.47; Whaples and Buffum, 'Fraternalism', pp.112-113.

⁷⁶⁴ C.R. Henderson, 'Industrial Insurance I; The Extent and Nature of the Demand for a Social Policy of Workingmen's Insurance', *American Journal of Sociology*, 12, 4, (Jan., 1907), p.478.

Contra Emery and Emery an increase in household labour market involvement increased participation, suggesting that the ability to consume as income rose dominated the substitution of family members' earnings for fraternal insurance.⁷⁶⁵

Why did the IOOF dismantle its sickness benefit scheme? A more historical analysis suggests that the main issue was the IOOF's inability to provide sickness benefits along financially viable lines. This approach builds on the ideas of Ostrom, who has argued that 'supply side' forces are of prime importance in shaping the emergence and development of institutions governing public and club goods. In short, whilst a group of individuals might all desire a particular institutional arrangement, collective action dilemmas often mean that they are unable to achieve such an end.⁷⁶⁶ The IOOF was in precisely this situation. As Swartz has suggested 'the need of IOOF members for sickness benefits repeatedly exceeded their financial capacity to meet it'.⁷⁶⁷

A preliminary question is whether the IOOF's sickness insurance system was flawed. Emery and Emery argued that lodges were financially viable and at a very low risk of collapse. They estimated the 'probability of ruin' of 27 IOOF lodges in British Columbia.⁷⁶⁸ This variable approximates the likelihood that claims will be greater than income and assets in a given year. The first step in calculating this metric involves making a distributional assumption about aggregate claims, to establish what the 'normal' pattern of claims in a given year would have been. In effect this entails using a multivariate regression to predict 'likely' sickness claims in each lodge annually. The second stage divides the wealth of the lodge by the predicted claims rate to calculate its probability of ruin.⁷⁶⁹ The results suggest that, under certain assumptions about the distribution of claims, most lodges were extremely secure. The scale of their security does, however, call into question the first stage Poisson regression used to predict sickness claims. Emery estimates an average probability of

⁷⁶⁵ Horrell and Oxley, 'Work and Prudence', p.47; Whaples and Buffum, 'Fraternalism', pp.112-115.

⁷⁶⁶ E. Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action* (Cambridge, 1990), pp.42-45; R.H. Bates, 'Contra Contractarianism: Some reflections on the new institutionalism', *Politics and Society*, 16, 2-3, (1988), pp.387-401.

⁷⁶⁷ D. Swartz, 'Review of "G. Emery and H. Emery, *A Young Man's Benefit: The Independent Order of Odd Fellows and Sickness Insurance in the United States and Canada* (Montreal, 1999)"', *Labour/Le Travail*, 48, (Fall, 2001), p.294.

⁷⁶⁸ Emery, 'Risky Business?', p.196.

⁷⁶⁹ Broten, 'From sickness to death: the financial viability', pp.29-35.

ruin of 0.00043, which is astronomically small. When lodge assets are included in the calculation all the lodges had a probability of ruin of zero; meaning there was no chance whatsoever of any of the lodges sampled going bust at any point between 1879 and 1910.⁷⁷⁰ Given that a number of lodges did collapse, these estimates seem highly implausible.

More important is the issue of perception: In explaining why the IOOF dismantled its sickness insurance scheme the question of whether lodges were financially viable is not as important as whether members perceived this to be the case.⁷⁷¹ Contemporaries did not have concepts like ‘risk loading’ or ‘probability of ruin’ available to them, much less the econometric techniques required to compute these measures. Of course the long-term survival of lodges did convince many members that reform was unnecessary. However it is likely that contemporaries focused on heuristic measures, such as income and expenditure, when evaluating the financial viability of the sickness benefit scheme. Accessing the views of officials and ordinary members in the IOOF is empirically challenging. State Grand Lodges were to a large extent autonomous meaning that most records are scattered. The following discussion relies on the annual Proceedings of the Grand Lodge of Wisconsin, which are accessible, complete, and contain within them reports on the annual meeting of the Sovereign Grand Lodge of the US.⁷⁷²

The IOOF operated a pay-as-you-go sickness insurance scheme. All members paid the same fee, regardless of age of entry, and lodges only accumulated a small reserve fund.⁷⁷³ The order did not practice actuarial pricing as in the British Oddfellows (see chapter 1). Similarly all of the societies in the NFC that offered sickness benefits ran on the equal assessment plan, as was the case in California in 1917.⁷⁷⁴ In 1892 the Louisiana Grand Lodge (hereafter GL) called the sickness

⁷⁷⁰ Ibid., pp.39, 57-60.

⁷⁷¹ Broten concedes the point, Broten, ‘From Sickness to Death: Revisiting the Financial Viability’, p.120.

⁷⁷² Accessed 17/06/2015 at [<http://catalog.hathitrust.org/Record/011984928>].

⁷⁷³ *Proceedings of GL of Wisconsin, 46th, 1892* p.72; still the case in *Proceedings of GL of Wisconsin, 51st, 1897*, p.74; and *Proceedings of GL of Wisconsin, 59th, 1905*, p.106.

⁷⁷⁴ Stevens, *Cyclopaedia*, pp.118, 121; *Report*, p.82.

benefit system ‘ruinous’.⁷⁷⁵ The next year the Massachusetts GL summarised the basic problem:

‘No subject more clearly affects the prosperity of our order than the relation of dues and benefits... no important feature of our institution is managed in such suicidal method as this.... No consideration is given to the wants, the needs, or the future necessities of the order. No uniformity exists among the Lodges... [who have] gone on with a blind reliance upon chance and good fortune. This may well cause no great embarrassment while the lodges are in their youth and while the average age of their membership is young, but the time is coming... when we must rely upon close calculation and upon good financing to live. A very large proportion of the Lodges over twenty-five years of age are spending for expenses and benefits more than their entire income; and the number of such Lodges is increasing from year-to-year.’⁷⁷⁶

Later in 1897 the GL of North Carolina complained that many of its subordinate lodges were on the verge of bankruptcy.⁷⁷⁷ These concerns were deeply embedded. As early as 1875 the Grand Lodge of the US remarked on the ‘urgent necessity of State Grand Bodies to take steps... to regulate the financial system of the Subordinate [lodges] upon a sound basis’, with the basic problem being that expenditure regularly exceeded receipts.⁷⁷⁸ Yet little progress was made and in 1918 the Grand Master of Wisconsin complained that ‘a number of Lodges are paying sick and funeral benefits entirely out of proportion to the dues that they are collecting, which eventually will result in a depleted treasury and in the inability of the Lodges to carry out its obligations’.⁷⁷⁹ In 1922 the Grand Master repeated these concerns almost word for word.⁷⁸⁰

As discussed in chapter 1, this pay-as-you-go method was functional as long as the society held down the average age of the membership by recruiting new members. In 1912 the GM of Wisconsin encouraged lodges to recruit ‘new stirring blood’.⁷⁸¹ Yet from 1870 admission rates fell dramatically, picking up slightly between

⁷⁷⁵ *Proceedings of GL of Wisconsin, 46th, 1892*, pp.23-24.

⁷⁷⁶ *Proceedings of GL of Wisconsin, 47th, 1893*, p.31.

⁷⁷⁷ *Proceedings of GL of Wisconsin, 51st, 1897*, p.145.

⁷⁷⁸ *Proceedings of GL of Wisconsin, 31st, 1876*, pp.2534-5.

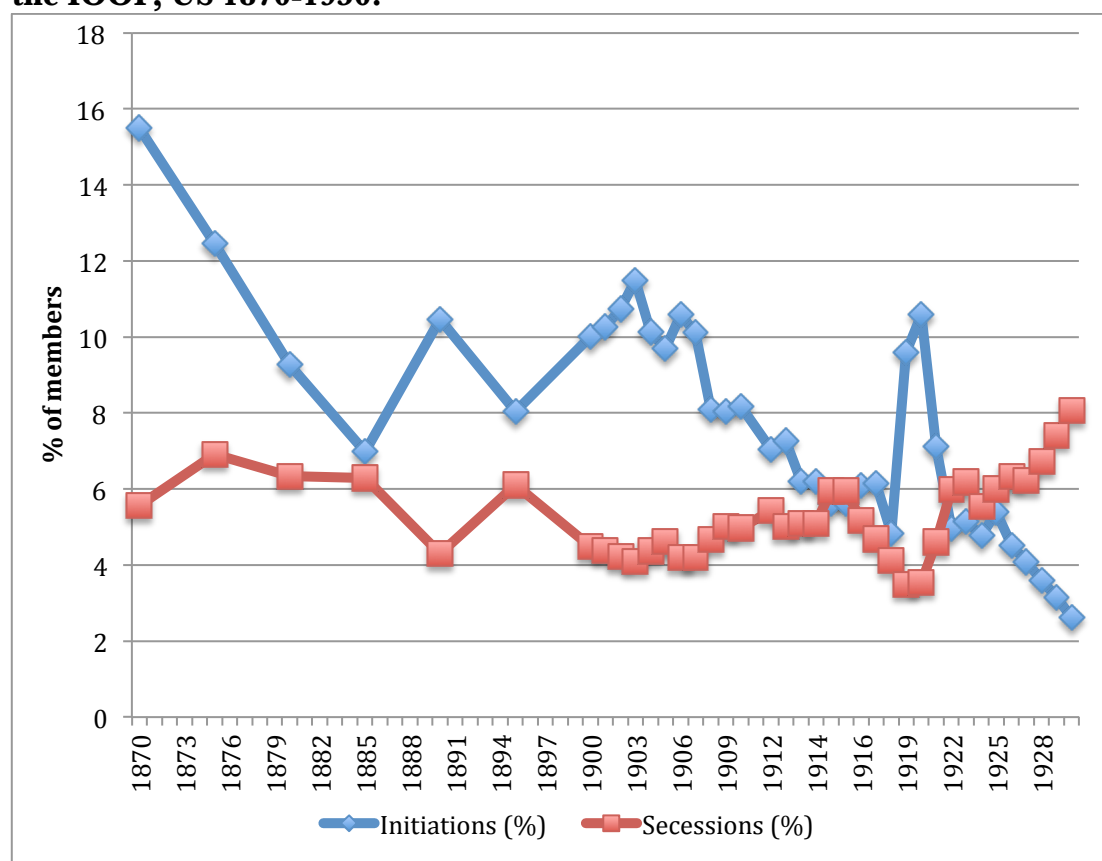
⁷⁷⁹ *Proceedings of GL of Wisconsin, 72nd, 1918*, pp.16-17.

⁷⁸⁰ *Proceedings of GL of Wisconsin, 76th, 1922*, p.20.

⁷⁸¹ *Proceedings of GL of Wisconsin, 66th, 1912*, p.18.

1885 and 1900 before steadily falling again (see **figure 6.8**). Secession rates hovered between 4% and 6% over the period – higher than in the British Oddfellows. Unfortunately the majority of members exiting the society were young. Emery and Emery assume that the young left for economic reasons. It is also possible that they seceded because they thought it was unfair that they should have to pay the same as older members. Fehr and Fischbacher have demonstrated that in behavioural experiments a large proportion of individuals exhibit inequality aversion, and have a preference for fairness that trumps their preference for material gain.⁷⁸² Gottlieb has suggested that it was a sense of injustice that led young members to frequently break away from their existing fraternal and found a new one.⁷⁸³ For Henderson ‘the younger members must carry more than their proper share of the cost, [so they] fall away from membership, only older members remain, the burden becomes unbearable, and the brotherhood becomes bankrupt’⁷⁸⁴

Figure 6.8: Admissions and secessions as a percentage of members in the IOOF, US 1870-1930.



Source: see source note figure 6.1.

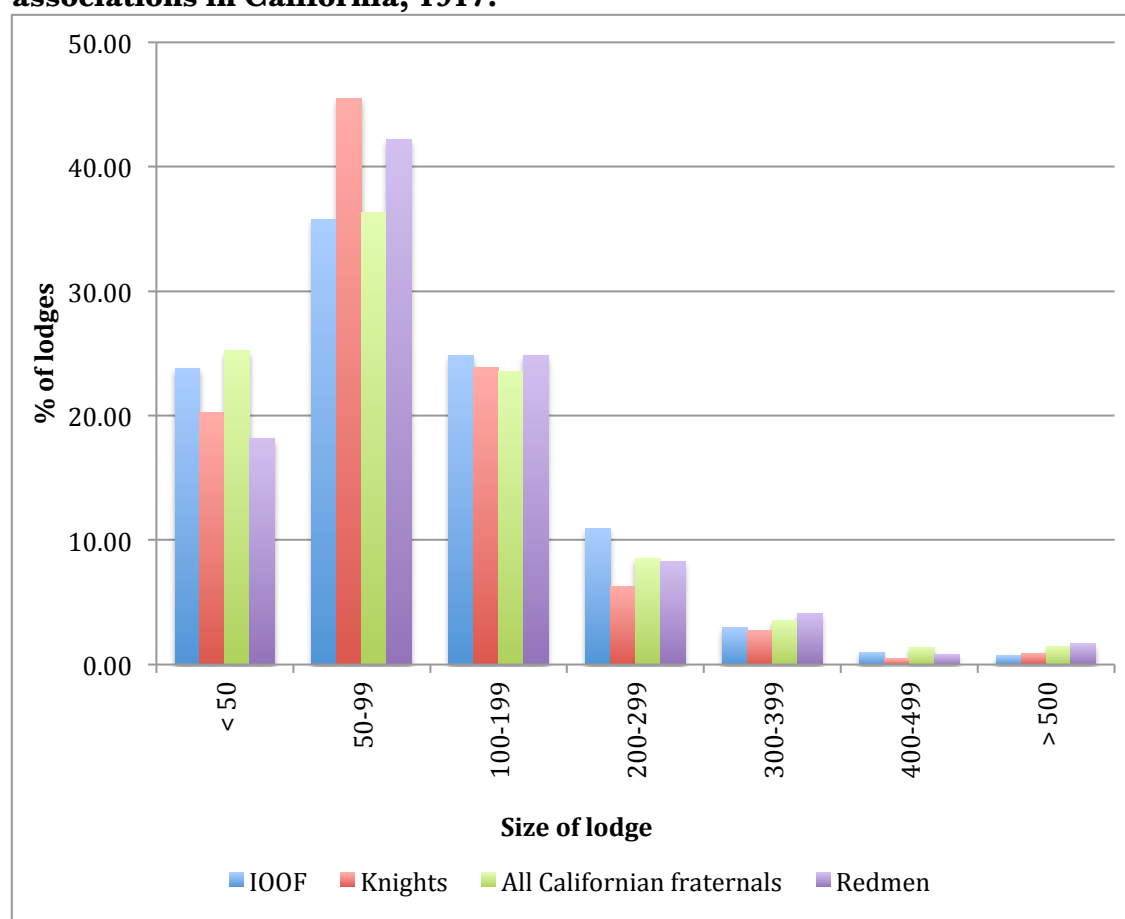
⁷⁸² Fehr and Fischbacher, ‘Why social preferences matter’, pp.C1-C33.

⁷⁸³ Gottlieb, ‘Asymmetric information’, p.275.

⁷⁸⁴ Henderson, ‘Industrial Insurance, IV’, p.37.

Another problem was that the lodges of the IOOF were much smaller than the branches of affiliated societies in Britain; in California in 1917 69.32% had fewer than 100 members (see **figure 6.9**). Officials within the fraternal movement focused on size as a heuristic guide to the long-term financial viability of a lodge. Since lodges were the primary financial unit a number of officials in the IOOF complained that small lodges with a high percentage of old members were vulnerable to collapse.⁷⁸⁵ The California commission conducted the most detailed investigation into lodge size and concluded that most were too small, and that this was ‘unsound from an insurance standpoint’.⁷⁸⁶

Figure 6.9: Distribution of lodge size in fraternal sickness insurance associations in California, 1917.



Source: *Report*, pp.83, 92-93. Note: Figures only relate to lodges with sickness insurance function.

⁷⁸⁵ *Report*, p.82; *Proceedings of GL of Wisconsin, 73rd, 1919*, p.103.

⁷⁸⁶ *Report*, p.83.

The first attempt at reform involved fixing benefit scales. In the 1880s, in response to rising morbidity rates (see **figure 6.10** and **6.11**) and financial hardship, some lodges began reducing the value of sickness benefits. In 1891 the Sovereign GL passed the minimum benefit law, fixing sickness benefits. This pushed lodges to move away from a pay-as-you-go system: once benefits were fixed lodges could no longer vary them as required and had no option but to increase dues and accumulate capital to ensure they could fund future claims.⁷⁸⁷ In 1892 the GL of New Hampshire called the law an ‘impertinent interference of the rights of Subordinates’, and complained:

‘in comparison with the old law that allowed the Subordinates to establish rates of benefits in accordance with their ability to pay,... this action... imposes a burden on the subordinates’.⁷⁸⁸

The same GL warned this would lead to the ‘bankruptcy and wreck of Lodges’, and an ‘increase in dues that will prove fatal to lodge prosperity’.⁷⁸⁹ In 1897 the Grand Master of Wisconsin made the same point, and warned that the law would force lodges to either increase dues, making them uncompetitive, or remove sickness benefits altogether.⁷⁹⁰ Over the late nineteenth and early twentieth centuries officials noted that admissions fell when contributions were increased.⁷⁹¹ In 1897 the Sovereign GL passed another pivotal reform, mandating that lodges suspend members in arrears. This was an attempt to force lodges to be more business-like, and take the issue of collecting sufficient revenue more seriously. Once again the New Hampshire GL complained that this had ‘swept away, as if by flood, a great number of our membership’.⁷⁹²

⁷⁸⁷ *Proceedings of GL of Wisconsin, 47th, 1893*, pp.45-46.

⁷⁸⁸ *Proceedings of GL of Wisconsin, 46th, 1892*, p.43.

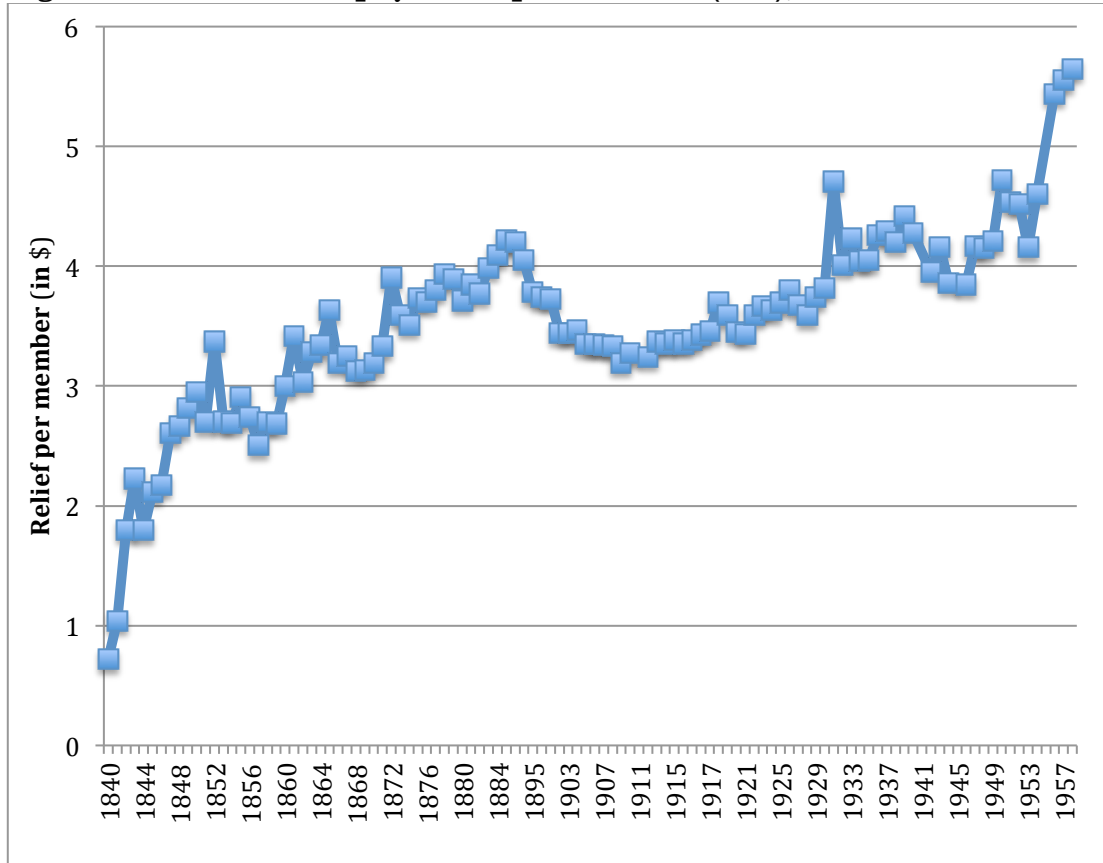
⁷⁸⁹ *Idem*.

⁷⁹⁰ *Proceedings of GL of Wisconsin, 51st, 1897*, pp.115-116.

⁷⁹¹ *Proceedings of GL of Wisconsin, 74th, 1920*, p.16.

⁷⁹² *Proceedings of GL of Wisconsin, 51st, 1897*, pp.144-5.

Figure 6.10: Sick relief payments per member (in \$), IOOF 1840-1958.



Sources: From 1886 based on *Proceedings of the Sovereign Grand Lodge of the US, Baltimore, M.D.* – compiled by Herbert Emery.⁷⁹³ Pre 1886, *Ross Odd Fellowship*, pp.660-662.

There were other attempts at reform. The 1888 session of the Sovereign GL discussed actuarial reform but a proposal to give state GL’s ‘general supervision of the insurance scheme’ was defeated. Reflecting on the session a contributor to a history of the IOOF in 1898 noted that ‘little of any value has been, or ever will be, accomplished in that direction’.⁷⁹⁴ Another contributor to this history was more optimistic, but noted that the failure to reform would be ruinous:

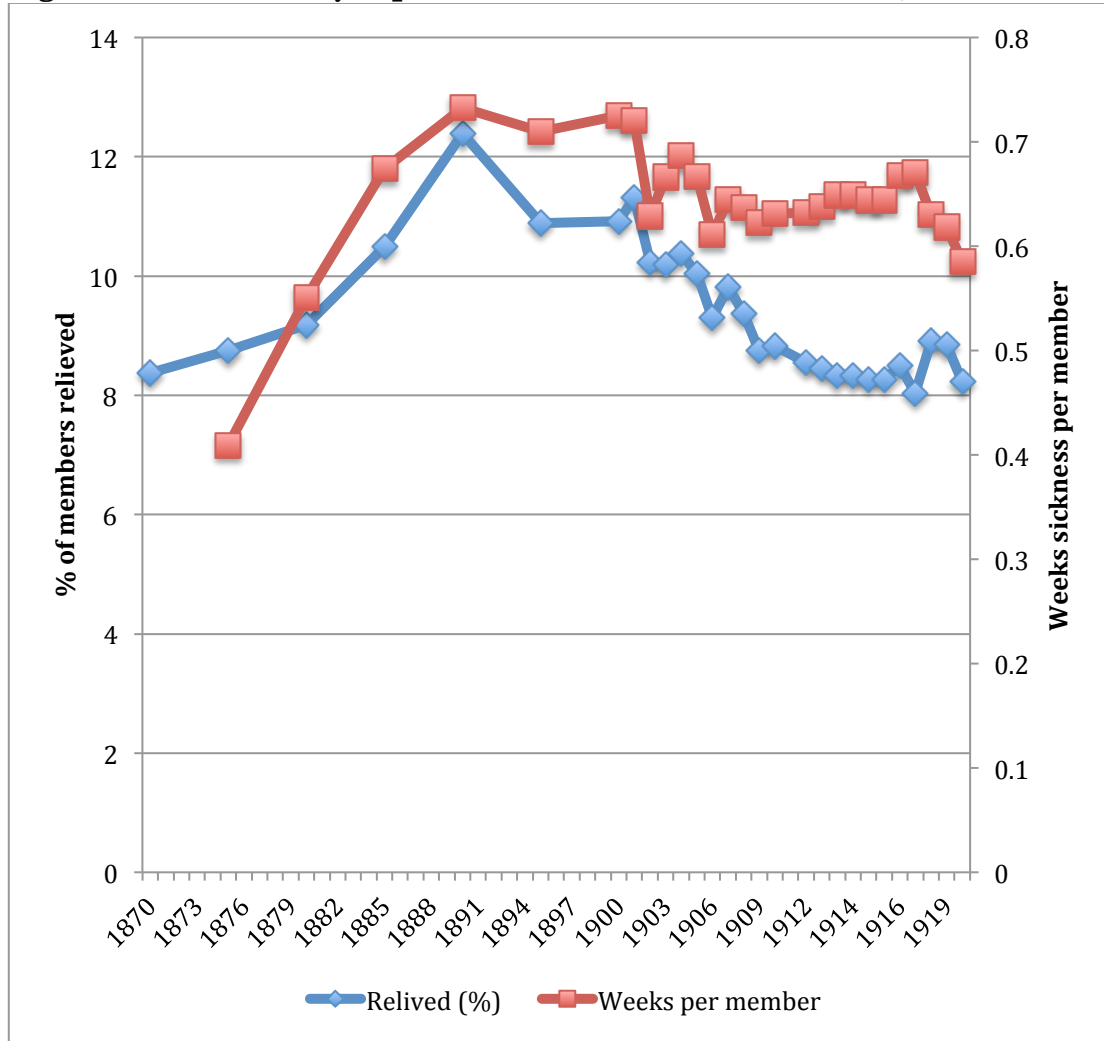
‘the adjustment of a proper ratio of dues charged, to benefits paid, will come some day, and with its coming will disappear from the channel, ever broadening and growing deeper before our advance, the rock most threatening to our progress’.⁷⁹⁵

⁷⁹³ These proceedings were held in Baltimore by the Grand lodge of Maryland, but a large amount of the records have been damaged. Herbert Emery was kind enough to share these data with me.

⁷⁹⁴ Stillson (ed.), *The Official History*, p.167.

⁷⁹⁵ *Ibid.*, p.178.

Figure 6.11: Morbidity experience of members of the IOOF, 1870-1920.



Source: see source note figure 6.10. Note: Calculated assuming a 5-day workweek. Note: It is worth noting that total morbidity rates were higher in the British Foresters, see figure 5.17, by nearly 10 days per annum. This divergence is worthy of further research. It may be because in the U.S. overall morbidity rates were lower as a consequence of higher wages (which raised the opportunity cost of sickness) and higher biological living standards.

Yet there were barriers in the way of reform. Lodge bookkeeping practices were rudimentary and acquiring information on mortality and morbidity was extremely difficult.⁷⁹⁶ Without this information it was impossible to accurately price membership fees. Compounding the problem, lodges were fiercely autonomous and were often reluctant to send information and increase contributions. More significantly the federal state-by-state grand lodge system meant the IOOF was less centralised than the British Oddfellows, making it more difficult for officials to implement top down reform.

⁷⁹⁶ *Proceedings of GL of Wisconsin, 70th, 1916*, p.32.

Faced with the choice of no sickness insurance scheme or an unreformed one the officials of the IOOF opted for nothing. Herbert Thompson of Michigan was the most active advocate of removing sickness benefits. His main gripe was that the system was financially ruinous – he pointed out that between 1915 and 1925 revenues had fallen short of expenditure in all but three GL jurisdictions.⁷⁹⁷ The first steps were taken in 1917 when the Sovereign GL acknowledged that lodges had been unable to increase dues and were in a poor financial state. The general rules were altered so that State GL's could choose to provide sickness benefits.⁷⁹⁸ It took time to work through but by 1921 most GL's had dropped benefits. Within Wisconsin in 1915 the Iowa Lodge No.1 called for sickness benefits to be made entirely informal and discretionary at the lodge level.⁷⁹⁹ After years of pressure the Wisconsin GL repealed the compulsory benefit law in 1919 on the basis that 'many lodges are not large enough in members' and 'dues are set too low and the Lodge is not on a sound financial basis'.⁸⁰⁰

The IOOF shrank by 23.5% between 1920 and 1930 (see **figure 6.1**). The sharp fall in the number of members in the 1920s suggests that there was a demand for sickness benefits.⁸⁰¹ Some advocates of removing sickness benefits clearly understood this, but wanted to actively change the social composition of the Oddfellows and shift the focus towards ritual practices, probably in an effort to compete with the Freemasons.⁸⁰² In 1897 the GM of Wisconsin complained that 'there are so many that are only Oddfellows for the sake of sick benefits', and that this was making it difficult to conduct rituals.⁸⁰³ In 1919 a group of lodges lobbied the Wisconsin GL to repeal sickness benefits, arguing that 'our order is not an insurance order' and that repeal would 'have a tendency towards securing... better educated men and not so many who are attracted to our order by the inducements held out by compulsory sick benefits'.⁸⁰⁴ This was clearly an attempt to attract more middle class

⁷⁹⁷ Emery, 'From Defining Characteristic', p.485.

⁷⁹⁸ *Proceedings of GL of Wisconsin, 72nd, 1918*, pp.51-52.

⁷⁹⁹ *Proceedings of GL of Wisconsin, 69th, 1915*, p.65.

⁸⁰⁰ *Proceedings of GL of Wisconsin, 73rd, 1919*, pp.103, 116.

⁸⁰¹ Kaufman, *For the Common Good?*, pp.166-167.

⁸⁰² The American Oddfellows were far more ritualised than the British wing, see M.C. Carnes, 'Iron John in The Gilded Age', *American Heritage Magazine*, 44, 5, (Sept., 1993), p.4; Wallace, *The Oddfellows Keepsake*, pp.100-101; Brumberg and Dudden, 'Masculinity and Mumbo Jumbo', p.364.

⁸⁰³ *Proceedings of GL of Wisconsin, 51st, 1897*, p.59.

⁸⁰⁴ *Proceedings of GL of Wisconsin, 73rd, 1919*, p.76.

members because, as Henderson noted, sickness benefit schemes were particularly popular amongst blue-collar workers.⁸⁰⁵

The interpretation of the decline of sickness insurance in the American Oddfellows presented above significantly diverges from the one presented by Emery and Emery. As discussed, they suggest that sickness insurance fell into decline as it was crowded out by the ability of the membership to self-insure through capital accumulation and broader household participation in the labour market. For the Emery's, the Oddfellows removed the sickness benefit system because there was no demand for it. In contrast I have argued that the failure to reform the sickness insurance system along actuarial principles over the final quarter of the 19th century had a long-term path-dependent effect. Officials and members perceived the sickness benefits system to be flawed, but repeated attempts at reform failed. Rather than retain the sickness benefit system they simply removed it. This set off a terminal decline in members.

Section 3: Actuarial reform

A number of contemporaries argued that despite their popularity fraternal life insurers were financially fragile. In the early stages of the fraternal movement most societies borrowed the AOUW equal assessment model, under which all members paid an equal share of annual claims regardless of age or age of entry. Assessment rates were set just high enough to cover annual expenditure, and societies did not accumulate reserve funds. Miles Dawson, the prominent Progressive and actuary, called the uniform assessment method a 'pathological phase of life insurance', a 'mistaken system' predetermined to fail.⁸⁰⁶ Similarly in his mammoth *Cyclopaedia of Fraternities* Albert Stevens noted that a great many societies were 'foredoomed to fail'.⁸⁰⁷ As the NFC acknowledged in 1901 most fraternal life insurers, like the British friendly societies, were founded with a 'lack of knowledge... that probable receipts must equal probable liabilities'.⁸⁰⁸ As in Britain the consequence was that

⁸⁰⁵ Henderson, 'Industrial Insurance IV', p.35.

⁸⁰⁶ M. Dawson, 'Fraternal Life Insurance', *Annals of the American Academy of Political and Social Science*, 26, (September, 1905), p.127.

⁸⁰⁷ Stevens, *Cyclopaedia*, p.114.

⁸⁰⁸ *Proceedings of the NFC, 15th, 1901*, p.111.

contributions were set too low relative to benefits.⁸⁰⁹ Meyer argued that most societies went through a predictable life cycle: ‘a rapid increase in membership, possibly also a simultaneous reduction in the average age; a gradual increase in the death rate, accompanied by increasing difficulty in securing new members; an increase in [the number of] assessments or rates, and loss of members, or an attempt to slide along without raising assessments; and finally, financial failure’.⁸¹⁰

This section of this chapter discusses the relative failure of actuarial reform within the American life insurance fraternal. Whereas other authors have emphasised the vibrancy of the fraternal movement, both as institutions that generated social capital and insurers, this chapter emphasises persistent problems with fraternal life insurance and the resistance to actuarial reform. The following discussion underlies the findings of earlier chapters; the pay-as-you-go financial model that early friendly societies operated on was deeply flawed and actuarial reform was both necessary and beneficial.

As in the British friendly societies in the 1840s, critics complained that the uniform assessment system was also unjust.⁸¹¹ Dawson saw it as ‘unfair that a youth should pay as much as an old man’, given that mortality rates rose with age.⁸¹² This was also seen as inter-generationally unfair. A society charging uniform assessments could only continue to function as long as it held the mortality rate constant by adding new, preferably young, individuals to the scheme. Otherwise the society would have to increase the number of assessments to meet increased claims. This might have led to an exodus, pushing the up contributions for the remaining members. Of course a society could delay a hike in contributions by adding new members, but actuaries argued that this was only prolonging the inevitable. Societies running a deficiency were pushing the cost of insurance onto young and future members. One NFC official likened this to ‘simple robbery’.⁸¹³ Dawson argued that the high rate of

⁸⁰⁹ Meyer, ‘Fraternal Insurance’, p.86.

⁸¹⁰ *Ibid.*, p.83.

⁸¹¹ Beito, *From Mutual Aid*, p.135.

⁸¹² Dawson, *Assessment*, p.33.

⁸¹³ *Proceedings of the NFC, 15th, 1901*, p.322.

secession of members under twenty-five and falling recruitment rates were evidence that younger individuals were dissatisfied with the uniform assessment system.⁸¹⁴

Over the 1880s a number of societies were founded on, or converted to, the graduated assessment system, whereby the standard assessment rate was graded by age of entry and remained fixed at this level over the course of membership. The Royal Arcanum was the first society to adopt this system in 1877, and by 1897 twenty-three of the largest 31 societies in the NFC charged graduated rates.⁸¹⁵ As Dawson explained ‘the new plan had the advantage of seeming fairer and more reasonable than the old, as well as more likely to prove permanent’.⁸¹⁶ Yet the graduated assessment plan shared a number of the flaws of the uniform assessment plan. It was still a pay-as-you-go approach, with annual contributions tied to annual losses. The graduated assessment plan did not charge enough to build up a reserve fund. The only difference was that members that joined later in life paid a greater proportion of annual claims, the precise proportion being crudely based on mortality tables. Dawson noted that ‘precisely as under the other plan, only enough was intended to be called to pay current losses, but now assessments were made... to represent the mortality at various ages’.⁸¹⁷

Actuaries complained that the graduated assessment system was neither ‘fair’ nor durable. Contributions still reflected the current cost of claims but not the probable future cost of claims. Sackett, a prominent reformer in the AOUW, noted that although ‘the graded rate did in greater measure establish greater equity between the members... as the contributions only reached the point of meeting current cost, leaving no residue, the one was no better than the other as a solution to the future’.⁸¹⁸ Critically the assessment rate was tied to age of entry. In their first year of membership an individual paid a fee derived from their probability of death at that age. As the years passed their probability of death increased, yet the assessment rate remained constant. Old members who had joined young paid a tiny fraction of their

⁸¹⁴ Dawson, ‘Fraternal Life’, p.130.

⁸¹⁵ Dawson, *Assessment*, p.25; Stevens, *Cyclopaedia*, p.116.

⁸¹⁶ Dawson, *Assessment*, p.35.

⁸¹⁷ Dawson, ‘Fraternal Life’, p.131.

⁸¹⁸ Sackett, *Early History*, p.238; Dawson, *Assessment*, p.5.

cost of insurance, and because the assessment rate did not factor in a premium to form a reserve fund the deficiency was inevitably pushed onto incoming members.⁸¹⁹

The long-run problem was the same as in a society operating on the uniform assessment plan. Actuaries argued that because graduated rates were not calculated to cover the lifetime risk of mortality societies could only survive by holding down the mortality rate via a constant influx of young members – or ‘new blood’ as it was termed. Otherwise the society would have to increase the number of assessments to meet rising costs. This normally set off an exodus of members.⁸²⁰ Yet even adding new members was no guarantee of survival. As Meyer explained, in the long run ‘how to do this – to follow the argument to its logical conclusion – without ultimately including the population of the world, and then making the populated globe larger’.⁸²¹ Moreover because the young were the most likely to secede an increase in the recruitment of young individuals was often cancelled out (see **figure 6.12 to 6.13**).⁸²² Adding new members could potentially make the situation worse. As Walter Bayse complained, ‘the larger the number of new members admitted on inadequate rates, the greater the deficiency’.⁸²³ Bayse warned that ‘a member who pays less than the cost of his protection may think that he is getting insurance at a bargain’, but this was only the case if ‘he dies before the laws of mortality wreck the society’; ‘if he lives long enough he will discover that his cheap insurance is a cheap product’.⁸²⁴

The theory that adding new members would hold mortality rates constant did not end up working in practice. **Figure 6.14 to 6.20** show the death rate and number of members in seven large fraternal life insurance organisations between 1871 and 1893. In all of these societies the mortality rate and the number of members increased dramatically over the period. Yet the increase in members was not enough to hold down the mortality rate. In the case of the Knights of Honor between 1884 and 1887 and the MWA between 1885 and 1889 the mortality rate fell, suggesting that these societies went on successful recruitment drives. Yet in the long run the

⁸¹⁹ Dawson, ‘Fraternal Life’, p.132; Dawson, *Assessment*, p.37.

⁸²⁰ On these dynamics see Dawson, *Assessment*, p.35-36; Landis, *Friendly Societies*, p.112; Meyer, ‘Fraternal Beneficiary’, p.205; Meyer, ‘Fraternal Insurance’, p.92.

⁸²¹ Meyer, ‘Fraternal Insurance’, p.82.

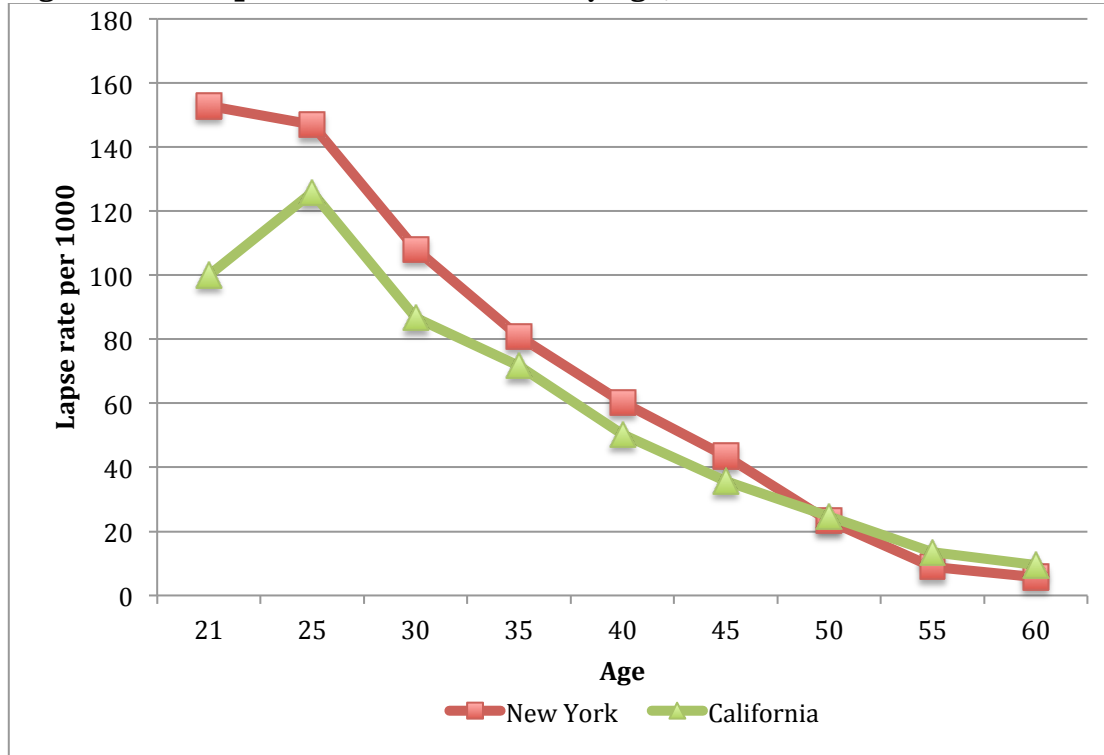
⁸²² A. Landis, *Life Insurance* (Nashville, 1914), pp.129-135.

⁸²³ Bayse, *History*, p.193.

⁸²⁴ *Ibid.*, p.66.

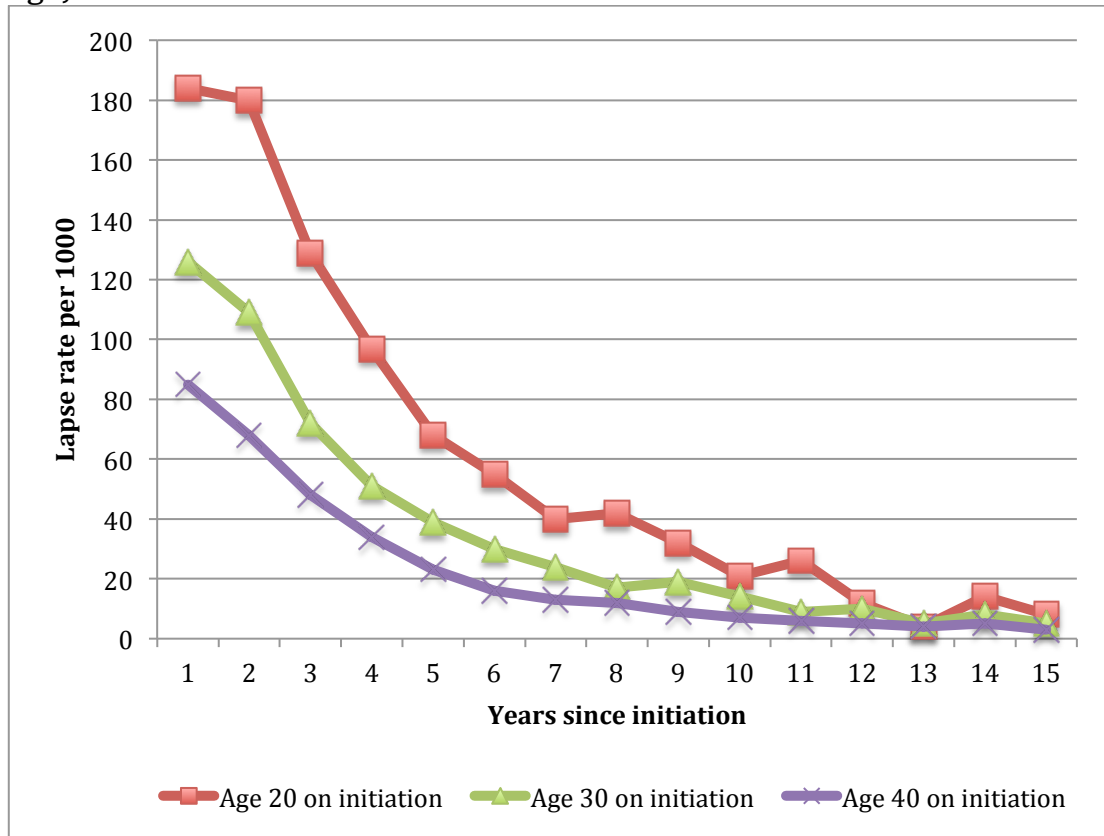
‘young blood’ approach clearly did not work. All fraternal insurers faced the same problem and there was a correlation, albeit weak, of the age of a society and its mortality rate (see **6.21**). Between their 3rd year of operation and 1896 all but one society, the Independent Order of Foresters (which ironically was the one society that adopted actuarial pricing), experienced an increase in the annual death rate and the cost of insurance (i.e. the amount paid out per member) (see **figure 6.22** and **6.23**). Some societies were in dire straits. Between 1881 and 1896 the death rate in the American Legion of Honor increased by an average of 35% *per annum*.

Figure 6.12: Lapse rate in the AOUI by age, 1914.



Source: Landis, *Life Insurance*, p.186.

Figure 6.13: Lapse rate in the MWA from 1 to 15 years after initiation, by age, 1899-1914.



Source: Landis, *Life Insurance*, p.188.

Figure 6.14: Membership and death rate in the AOOW, 1871-1892.

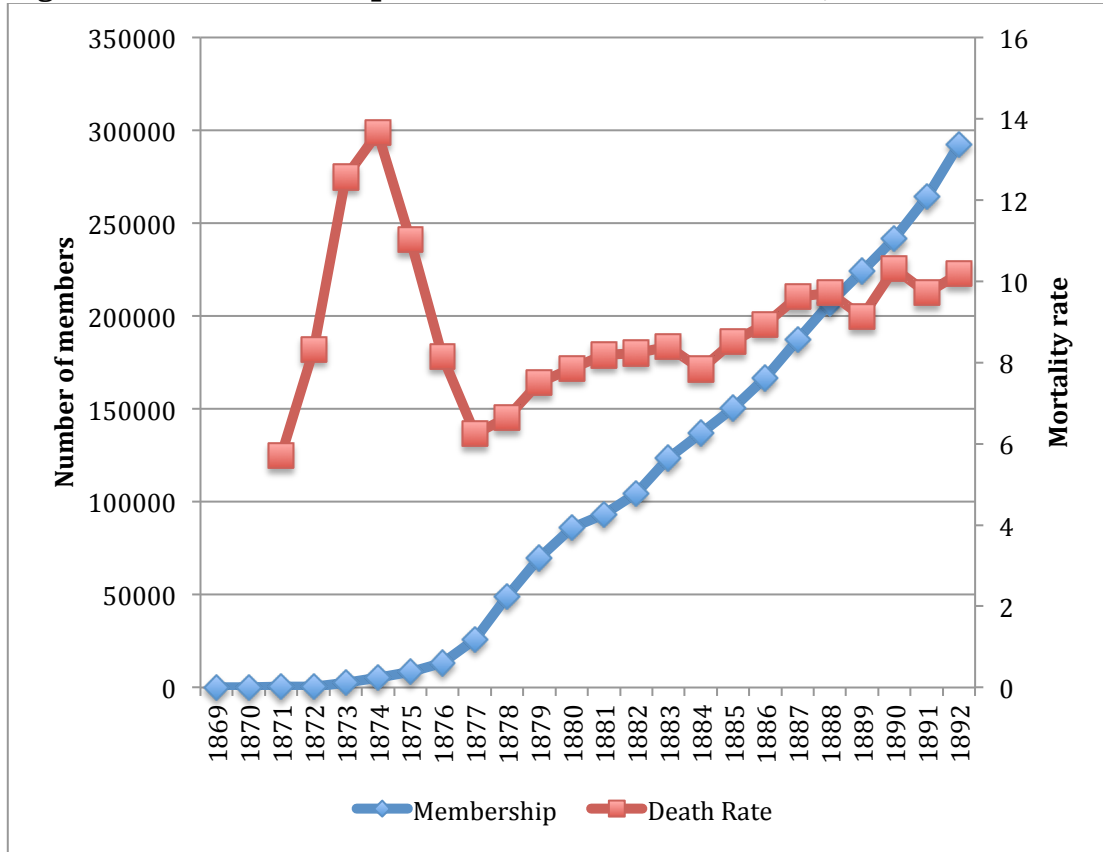


Figure 6.15: Membership and death rate in the Royal Arcanum, 1877-1892.

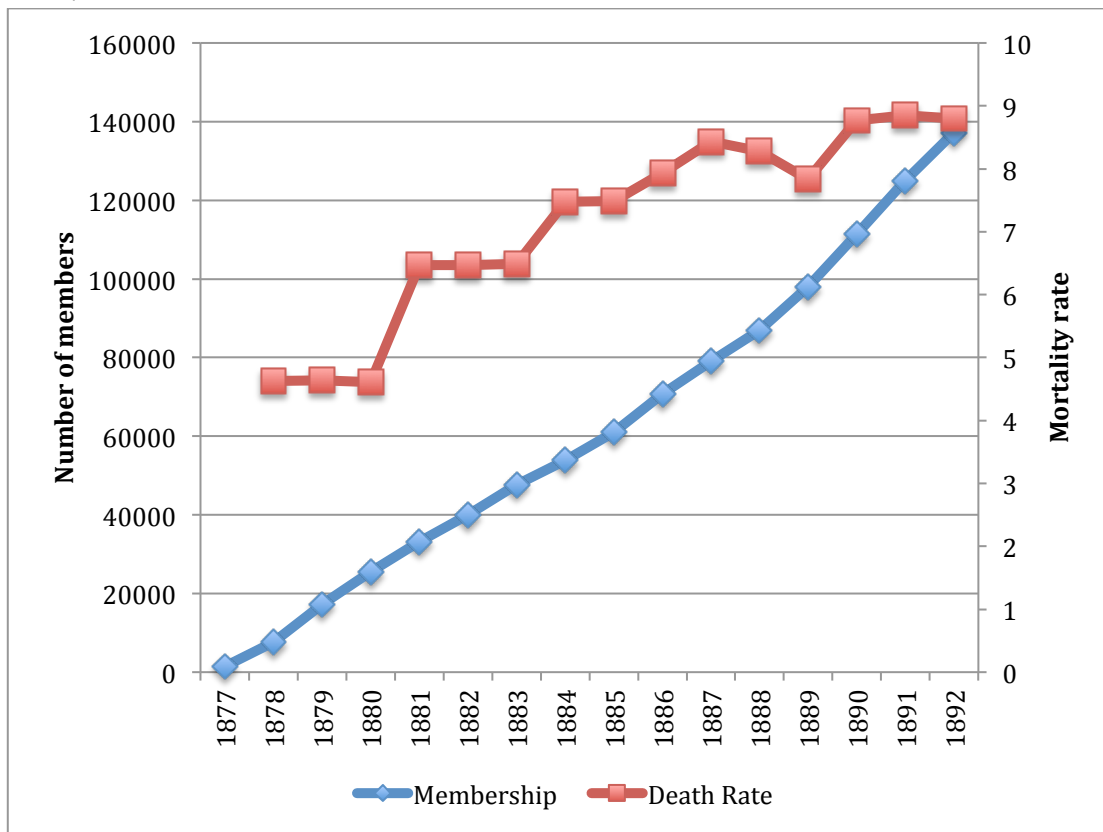


Figure 6.16: Membership and death rate in the Knights of Honor, 1882-1892.

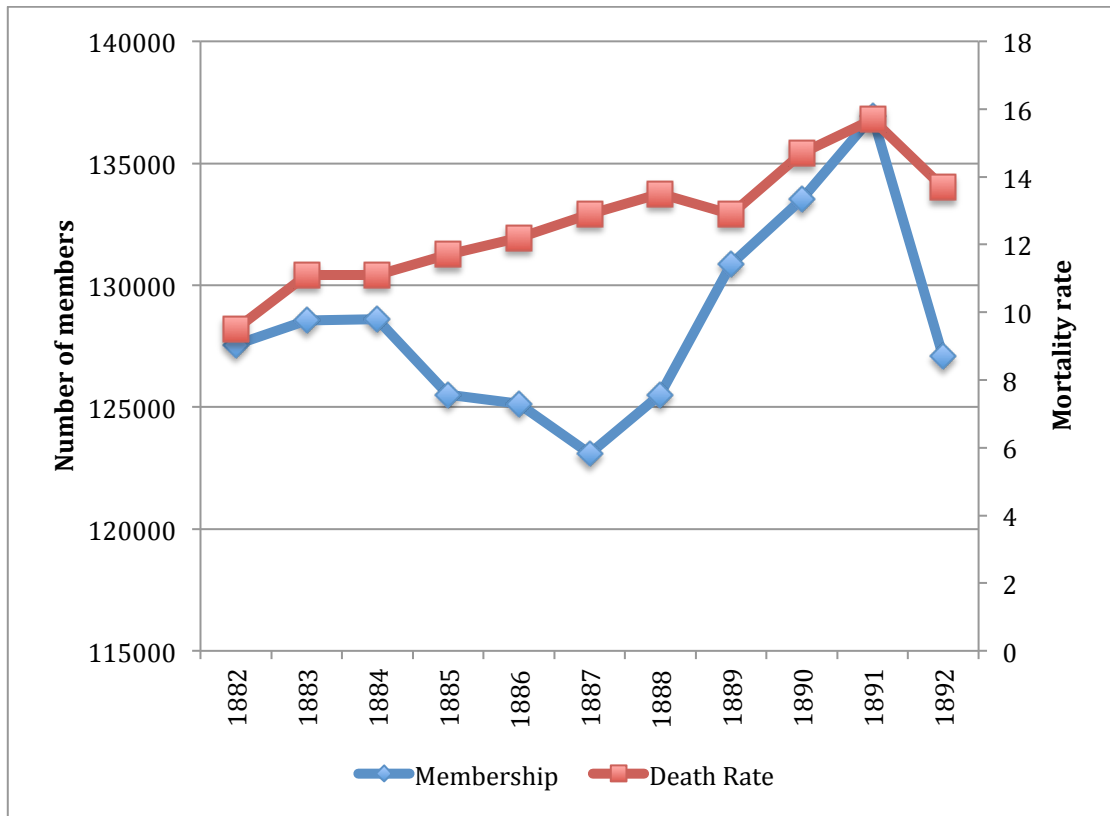


Figure 6.17: Membership and death rate in the Knights of Macabees, 1881-1893.

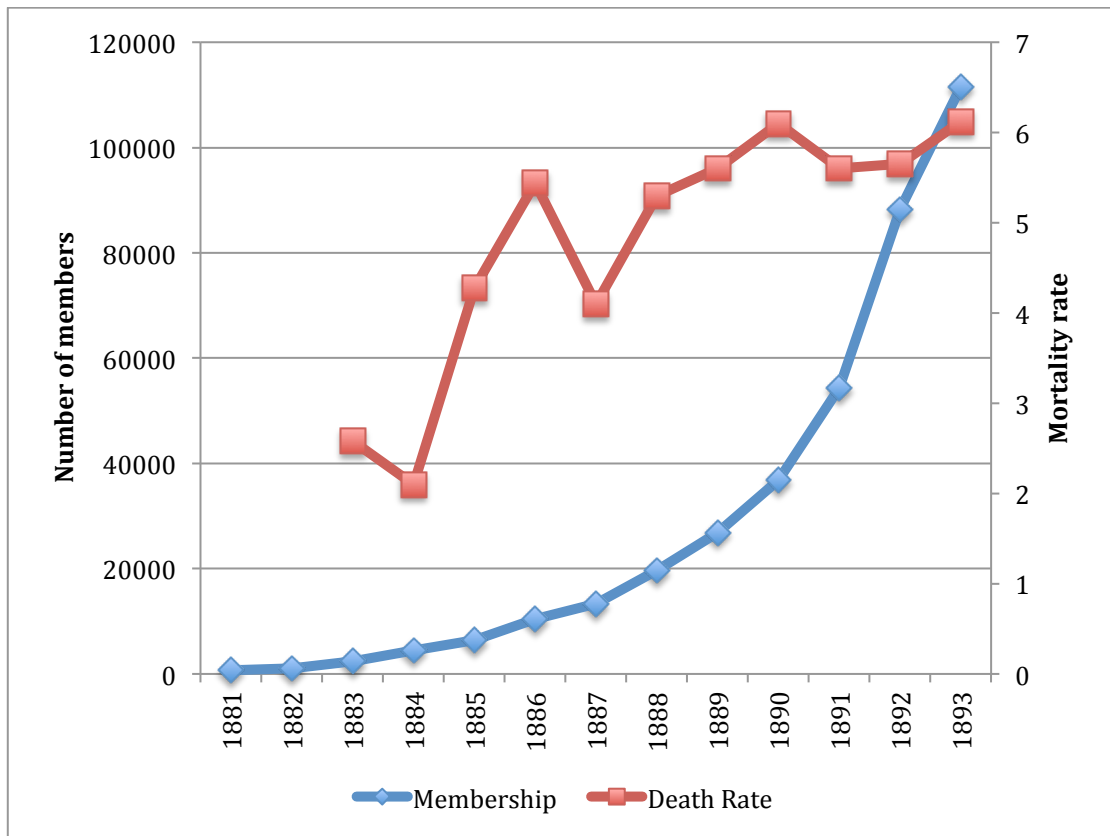


Figure 6.18: Membership and death rate in the Home Circle, 1881-1892.

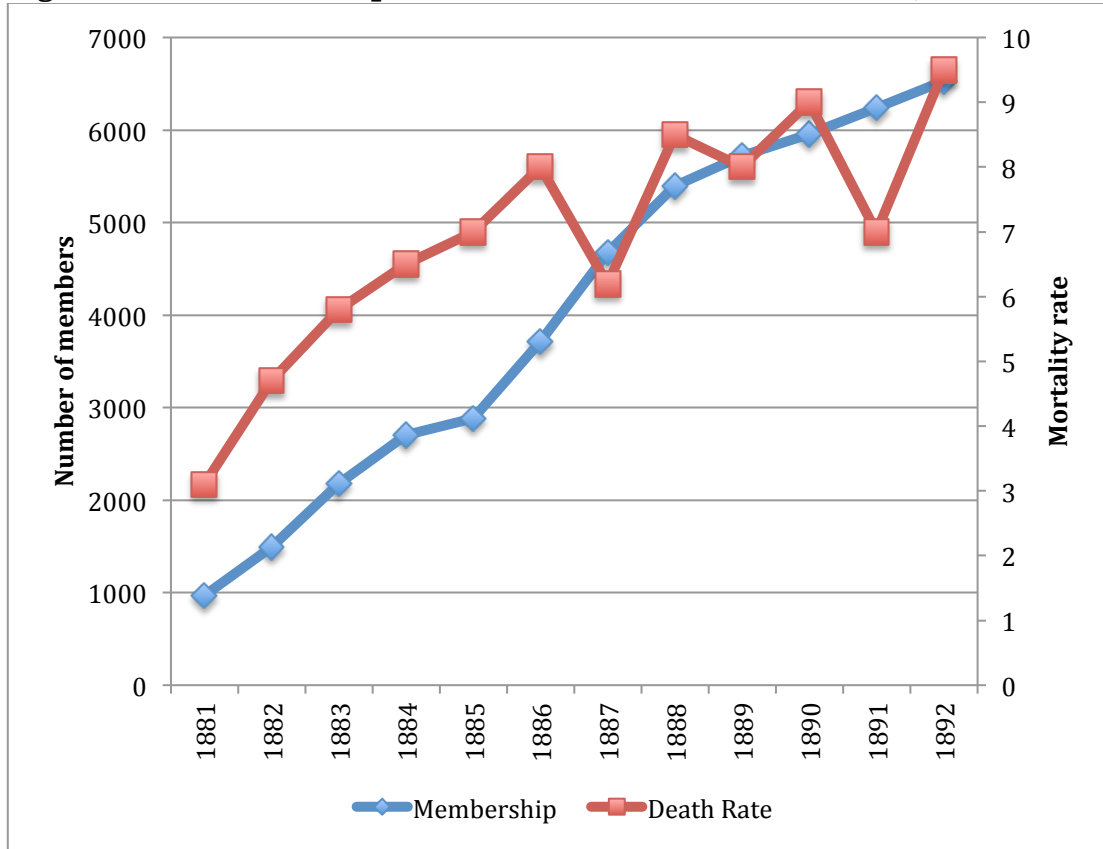


Figure 6.19: Membership and death rate in the American Legion of Honor, 1878-1893.

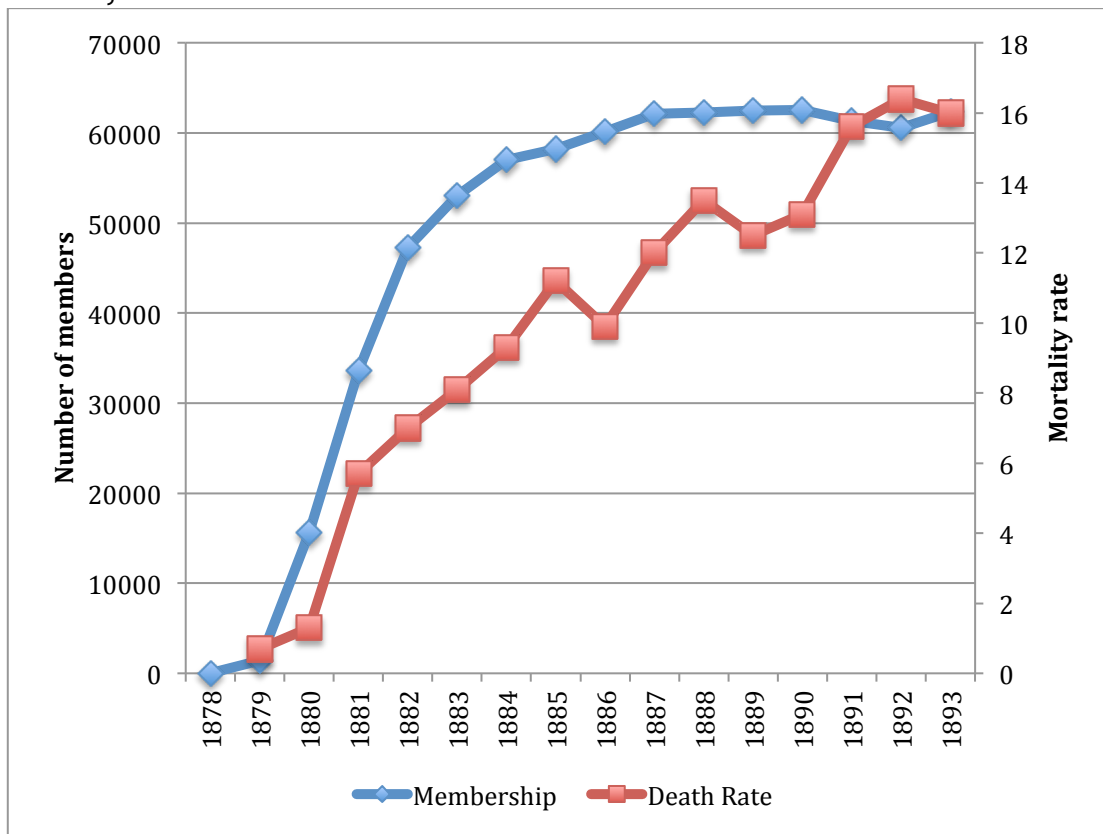
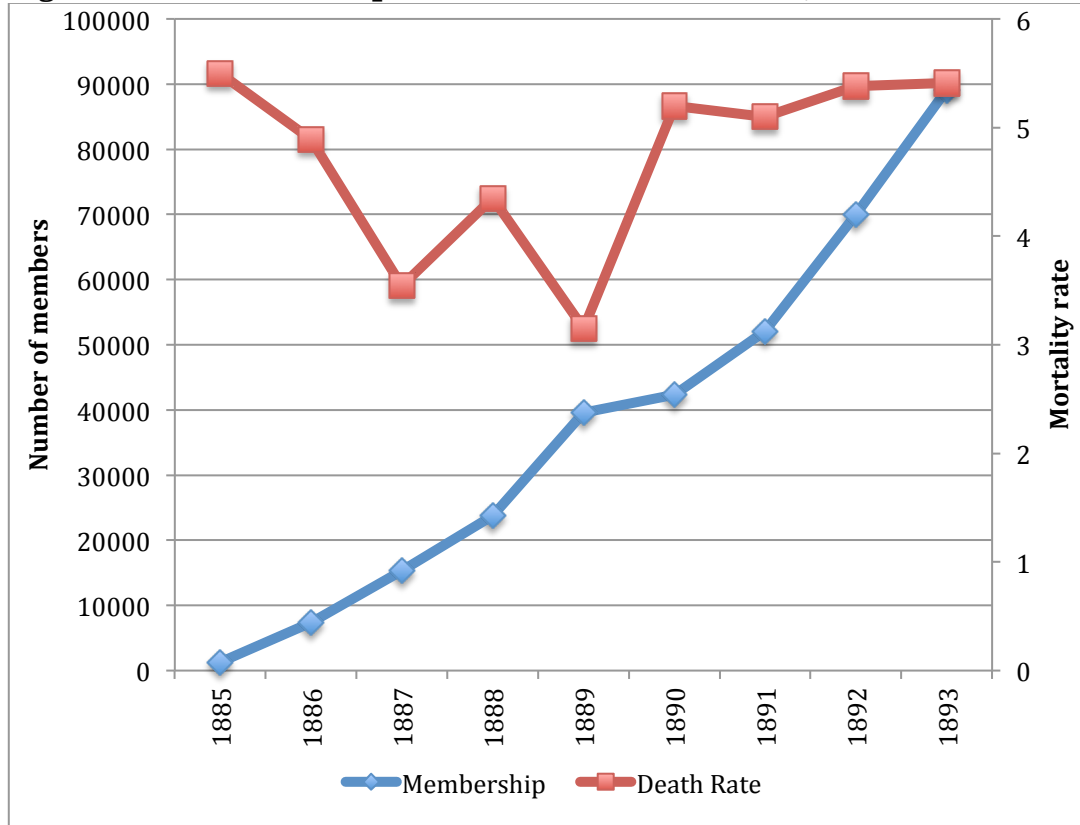
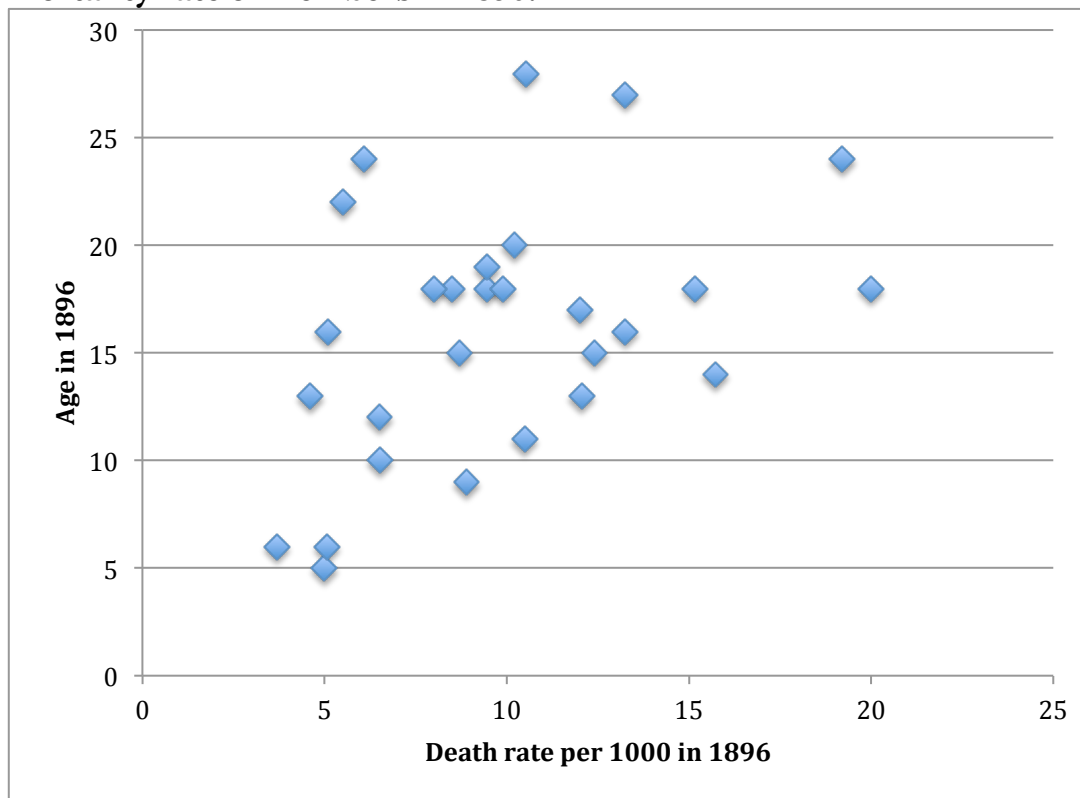


Figure 6.20: Membership and death rate in the MWA, 1885-1893.



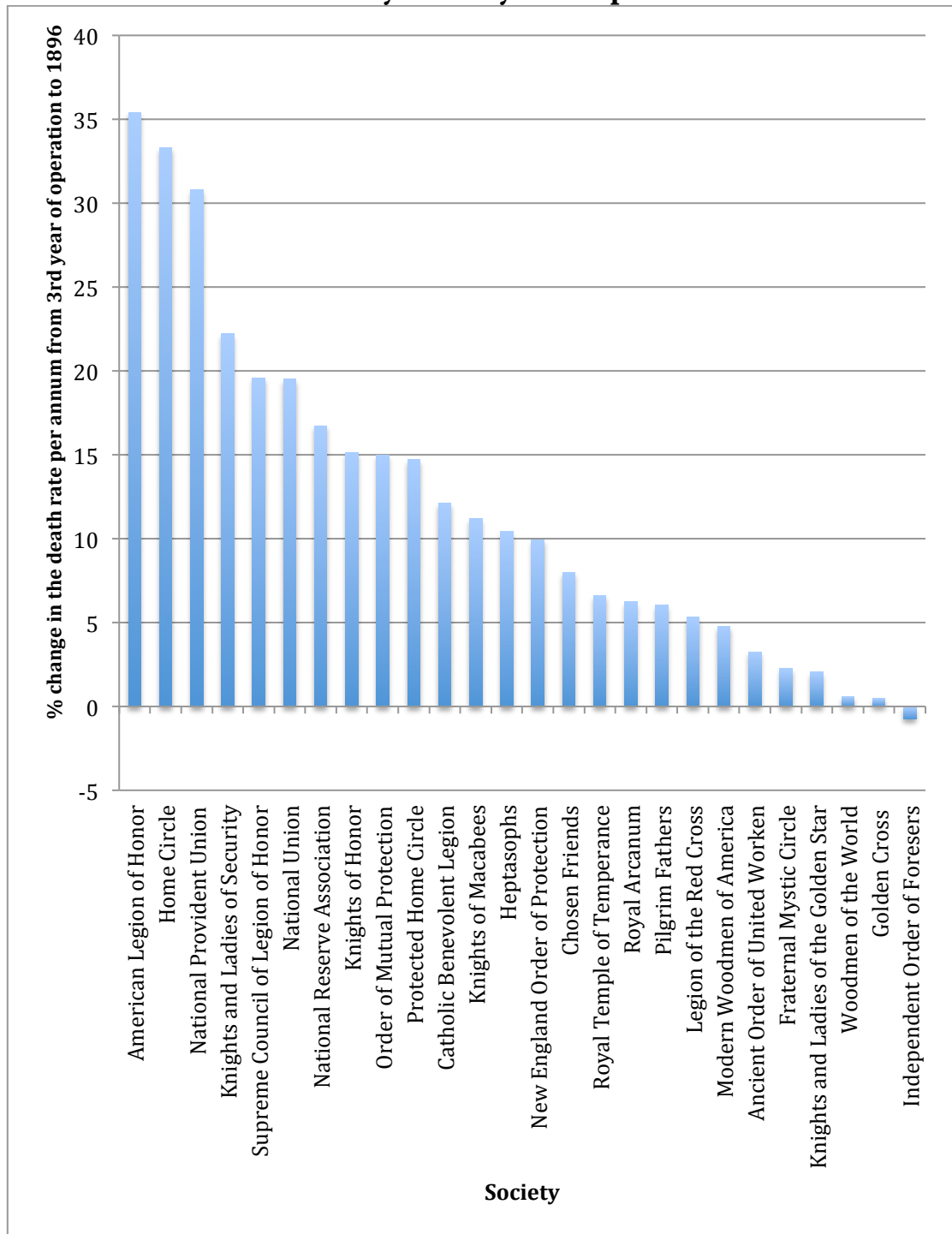
Source: For figures 6.14-6.20, see Oronhyatekha, *History*, pp.834-856.

Figure 6.21: Scatter plot of age of fraternal societies in 1896 and mortality rate of members in 1896.



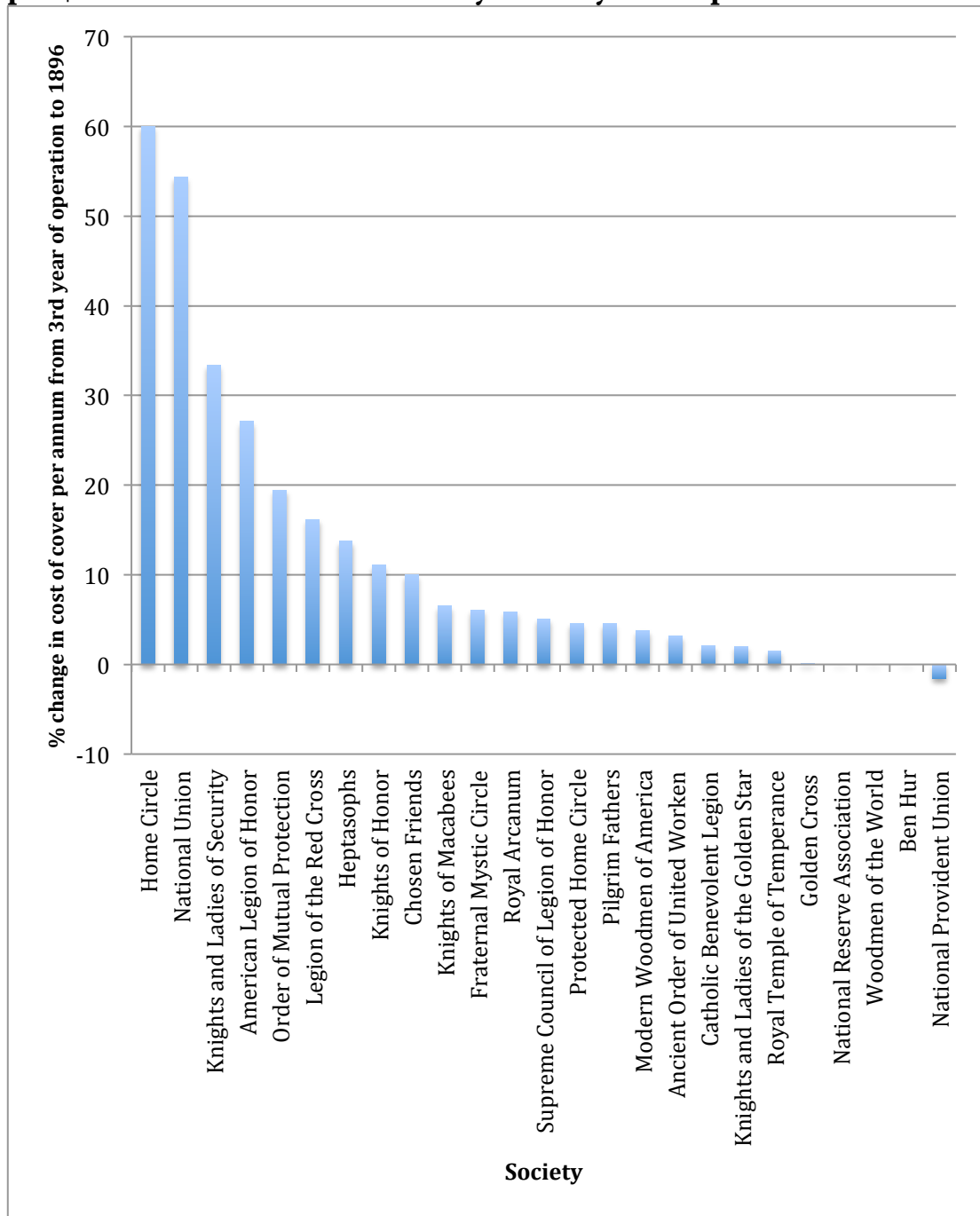
Source: Stevens, *Cyclopaedia*, pp.118, 121.

Figure 6.22: Average percentage change per annum in the mortality rate of members between a society's third year of operation and 1896.



Source: Stevens, *Cyclopaedia*, pp.118, 121.

Figure 6.23: Average percentage change per annum in the cost of cover per \$1000 insured between a society's third year of operation and 1896.



Source: Stevens, *Cyclopaedia*, pp.118, 121.

To make matters worse, price competition made it difficult for societies to defer collapse by recruiting new members or increasing the number of assessments on existing members.⁸²⁵ Societies like the Royal Arcanum converted to the graduated assessment plan to poach younger members from uniform assessment societies like

⁸²⁵ Landis, *Friendly Societies*, p.113.

the AOUW.⁸²⁶ Dawson noted that ‘this had the tendency to increase the average age of the membership... much more rapidly than the competition... [and] cuts off the rejuvenating influences which was expected to keep the death rate stable’.⁸²⁷ All societies were vulnerable to being undercut. **Figure 6.24** shows assessment rates by age in a number of societies in 1894. In 1892 the Knights of Honor reduced its rates at younger age groups in an effort to attract new members. The comparison of the Home Circle, the American Legion of Honor and the Knights of Maccabees is illustrative. In 1894 all three societies graduated assessments by age of entry. Yet up to the age of 29 the American Legion of Honor was considerably more expensive, meaning that the society was at a disadvantage. It is also important to note that even in this small sample of societies the rates varied a great deal, making the decision facing an individual looking to purchase cover cognitively complex.⁸²⁸ Moreover price – in this case the assessment rate based on age of entry – was an unreliable indicator of the actual cost of participation because if society had an aging population problem it might have to increase the number of assessments per annum making a seemingly cheap society more expensive.

If a society lowered its rates at younger age cohorts it could attract new young members and potentially steal members from other organisations. This could set off what Cutler and Zeckhauser call an ‘adverse selection death spiral’.⁸²⁹ If young members left en masse mortality rates would increase. The society would have to increase contributions, pushing up the cost of participation for the remaining members. Mortality rates increased with age, so older members had a higher demand for life insurance and were therefore more likely to remain in the society despite the higher cost (see **figure 6.13**). Younger individuals were more likely to leave, pushing up the mortality rate once again. **Figure 6.25** suggests that a number of societies were trapped in this form of destructive competition. Moving from left to right, every time a new organisation entered the market it started with a death rate lower than all of the other established societies, suggesting that it had attracted and poached young individuals. Yet over time the mortality rate inevitably crept upward.

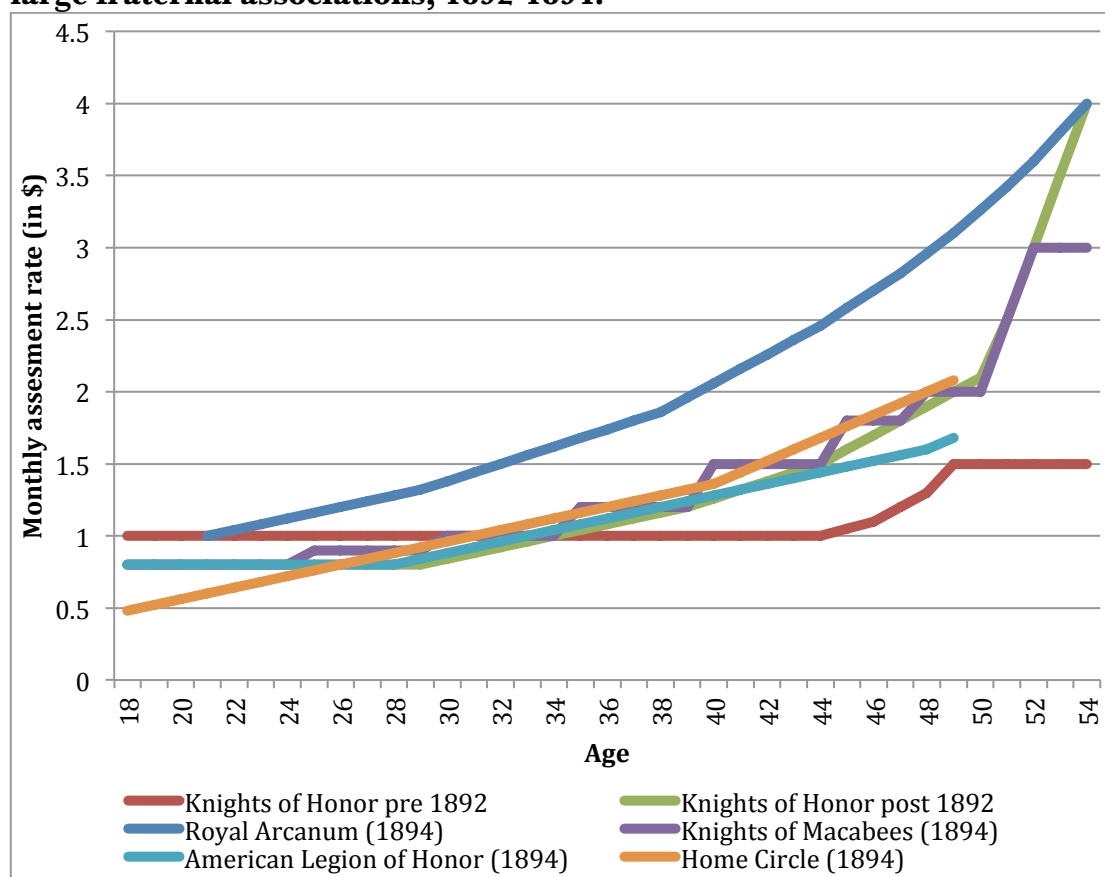
⁸²⁶ This was an enduring problem, see Metz, ‘Sweet Land’, p.53.

⁸²⁷ Dawson, *Assessment*, pp.35, 40-41.

⁸²⁸ Meyer, ‘Fraternal Beneficiary’, p.204.

⁸²⁹ D.M. Cutler and R.J. Zeckhauser, ‘Adverse Selection in Health Insurance’, NBER Working Paper Series, No. 6107, (July, 1997), pp.8, 14, 29.

Figure 6.24: Assessment rate (in \$) graduated by age on entry in five large fraternal associations, 1892-1894.



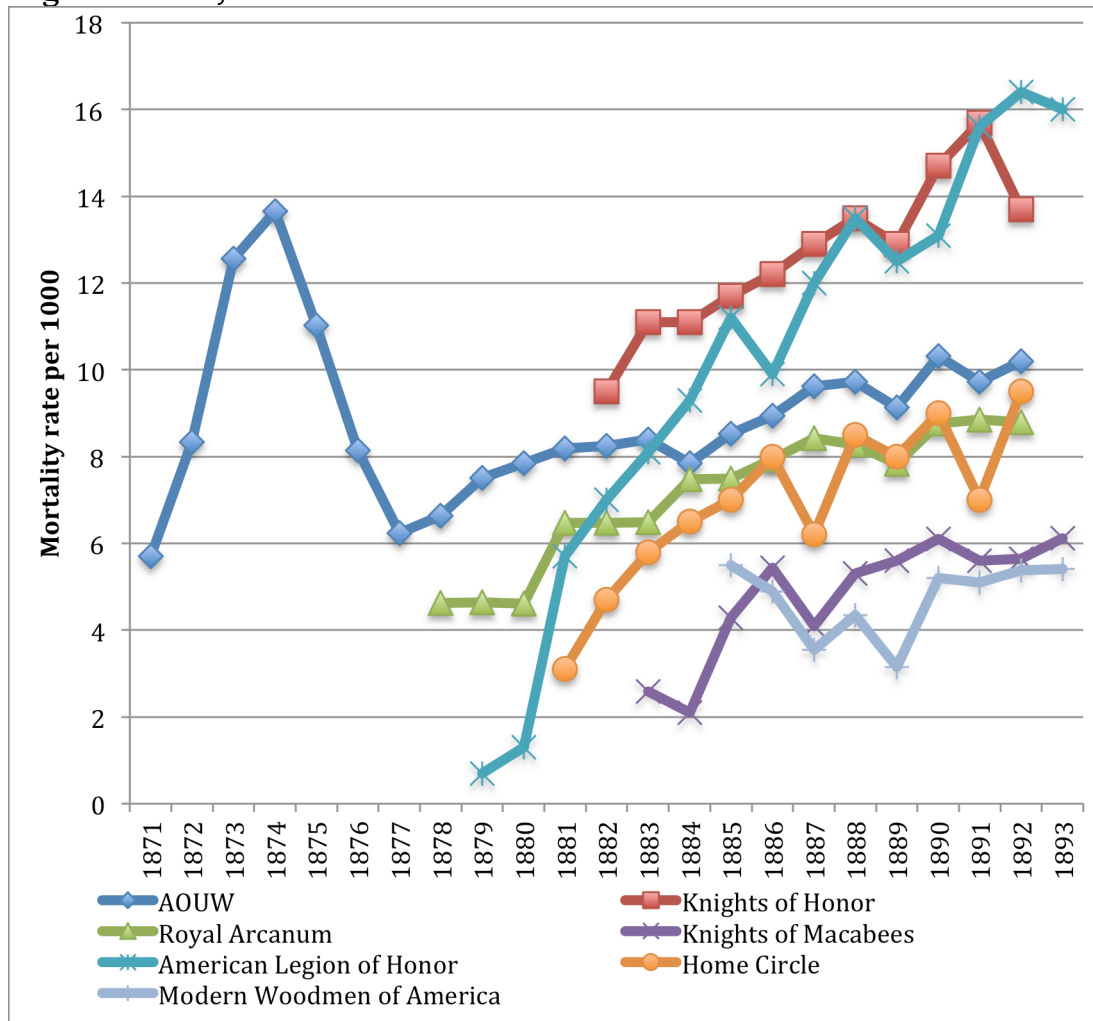
Source: Oronhyatekha, *History*, pp.836-55; Note: Most societies charged 12 assessments a year, but reserved the right to charge more and may have charged fewer.

In an important revisionist interpretation of the fraternal movement and its broader sociological benefits, Jason Kaufman has gone as far as to suggest that societies employing both the uniform and graduated assessment plans were operating as ‘Ponzi-like’ schemes.⁸³⁰ For Kaufman the intensity of competition for members was a consequence of financially unsound practices.⁸³¹ Young members would join on unsustainable ‘certificates’. Once in the society they would feel understandably aggrieved at any suggestion of readjusting rates. Therefore the organisation would go on another drive, perhaps offering ever more attractive assessment rates. For Kaufman the dynamics of ‘competitive voluntarism’ drove the increase in participation.

⁸³⁰ Kaufman, *For the Common Good?*, p.47.

⁸³¹ *Ibid.*, pp.47-51.

Figure 6.25: Mortality rate in six large fraternal life insurance organisations, 1871- 1893.



Source: Oronhyatekha, *History*, pp.834-856.

Kaufman is right to suggest that the assessment plan model both necessitated and drove membership growth, but the ‘Ponzi scheme’ label is inappropriate. An important caveat to the preceding discussion is that assessment plan societies were able to operate as viable insurance organisations *indefinitely* under certain conditions. In a classic paper in 1958 Paul Samuelson developed an overlapping generational (OLG) model that has had an enduring impact.⁸³² Samuelson demonstrated that in a world of a never-ending succession of generations it is optimal for the young to continually redistribute an endowment of goods and/or funds to the old.⁸³³ Samuelson’s model provides the theoretical foundations for pay-as-you-go financed

⁸³² Samuelson, ‘An Exact’, pp.467-482.

⁸³³ Ibid., p.480; P. Weil, ‘Overlapping Generations: The First Jubilee’, *Journal of Economic Perspectives*, 22, 4, (2008), pp.115-116.

state welfare schemes, which can also continue indeterminately despite being actuarially unsound.⁸³⁴

Fraternal life insurance organisations can be conceptualised as running an OLG model that, under the right conditions, would have endured. Yet in practice they violated some of the key conditions of the Samuelson model. In Samuelson's model there are an infinite number of agents in the economy, summing over all future time periods.⁸³⁵ In the fraternal this was not given because participation was not compulsory. This also created scope for adverse selection. Moreover societies had to compete for members and unless certain conditions held new arrivals were not guaranteed. This highlights a second divergence. In Samuelson's model the arrival of generations is exogenous to the model. In short new agents arrive regardless of the dynamics within the redistributive process.⁸³⁶ In the fraternal this was clearly not the case. An increase in secessions, a fall in admissions, an increase in the average age and a corresponding rise in mortality meant an increase in costs and this undermined the ability of the society to add new members. Over the 1890s actuaries, officials and increasingly members came to understand this. With morbidity rates rising, costs increasing and membership growth slowing it became plausible to envisage a time when new agents would no longer come forward, or be able and willing, to provide for the claims of the old. Samuelson recognised that his model's properties relied on the infinite existence of future generations, but argued that even if there human race had a finite existence of 'say 1 million generations' the OLG model was still optimal.⁸³⁷ Yet the fraternal had much, much, shorter time horizons, and many members could envisage collapse within their lifetime. In an OLG model once this is the case then the current younger generation might not assist the current older generation, as they perceive that they may go without once they have aged.⁸³⁸ In the case of the fraternal movement a similar dynamic convinced many of the need to abandon the pay-as-you-go approach and move to a funded plan.

⁸³⁴ Samuelson, 'An Exact' p.481-2 Weil, 'Overlapping Generations', pp.125-128.

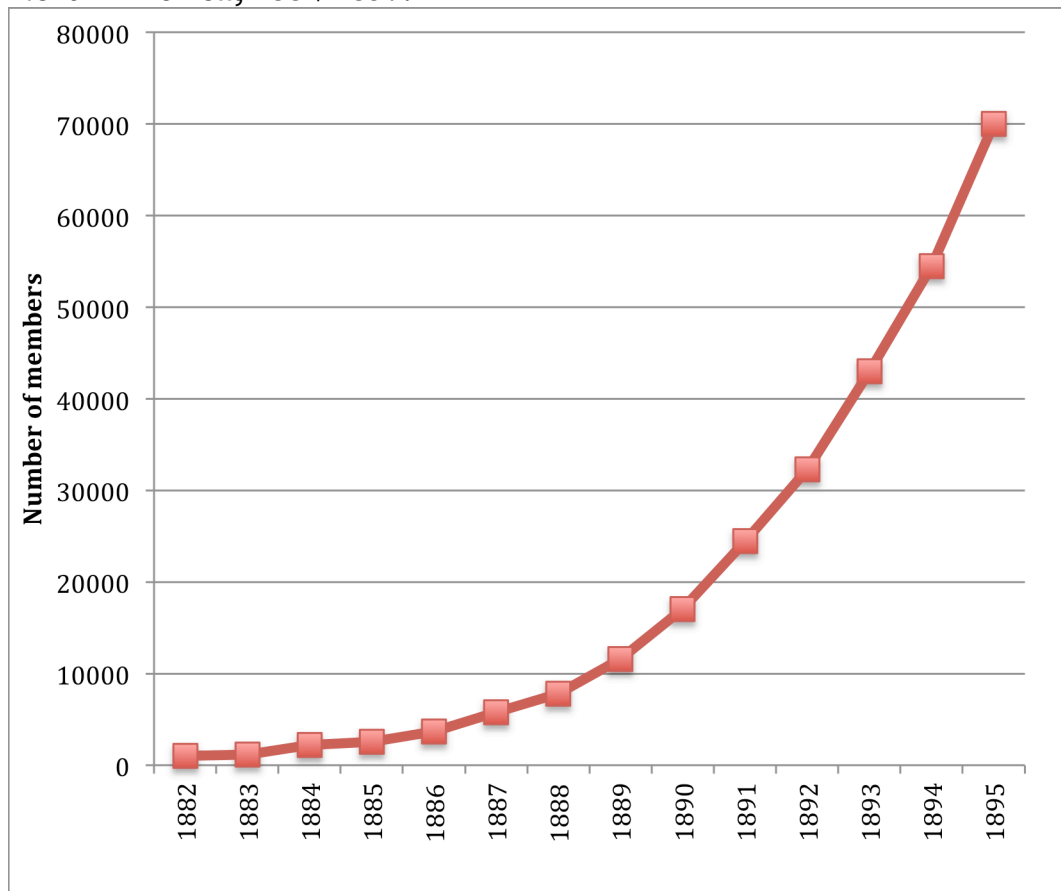
⁸³⁵ Weil, 'Overlapping Generations', pp.116, 124.

⁸³⁶ *Ibid.*, p.116.

⁸³⁷ Samuelson, 'An Exact', p.480, footnote 19.

⁸³⁸ Weil, 'Overlapping Generations', p.132.

Figure 6.26: Membership of the Independent Order of Foresters in North America, 1882-1897.



Source: Oronhyatekha, *History*, p.861.

Another important caveat is that not all societies adopted the uniform and graduated assessment plans. The Independent Order of Foresters was founded in the early 1870s when a number of courts of the British Foresters seceded. The order grew at an astonishing rate, growing from 1019 members in 1882 to 70,0005 members in 1897 – an average annual growth rate of 521% (see **figure 6.26**). The Foresters attributed its rapid ascent to its ‘equitable’ pricing practices and the fact it offered sickness as well as death benefits. The order adopted the system of charging graduated ‘premiums’ based on the age of entry (as in the British friendly societies like the Oddfellows, see chapter 1). In this model contributions matched future liabilities. The precise price was derived from actuarial estimates of age specific mortality so that the member paid in a surplus in youth, which created a reserve equal to the

deficiency in contributions in latter years.⁸³⁹ According to Bayse, the Independent Order of Foresters was the first organisation to ‘make provision for a reserve fund to ensure its future integrity and solidarity’.⁸⁴⁰ The Foresters advertised the plan as both prudent and fair:

‘By the Independent Order of Foresters system, the young men are not called upon to pay in addition to their own fees a proportion of the fees of the older membership in the order, as is practically done by all societies which charge their members a uniform rate of assessment irrespective of their age... [In addition] the system is sound because it will allow the order to meet all its claims.... [which was] not the case with the flat assessment system’.⁸⁴¹

By the late 1890s a number of societies recognised that the graduated assessment model was unsustainable. Yet reform was incredibly difficult without inter-society cooperation. Moreover many within the fraternal movement were deeply suspicious of any alternative financial models.

In 1895 the NFC, established in 1886 to promote uniform legislation and cooperation between societies, finally decided that the graduated assessment plan was ‘faulty in theory, unsound in practice and should be remedied, and this can be accomplished by increasing the rate with increasing age or by so adjusting the rates as to establish a fund that shall equalise the cost throughout life, or, in other words, establish a Reserve’.⁸⁴² The former option was known as the ‘step rate plan’; it was pay-as-you-go in that members only paid contributions sufficient to cover annual expenditure, but the assessment charge increased with age to mirror increasing mortality.⁸⁴³ The National Union pioneered the method and by 1897 nine of the thirty-six largest fraternal life insurers used this system.⁸⁴⁴ The ‘step-rate’ scheme had a great deal in common with the natural premium plan operated by the old-line companies.⁸⁴⁵ The flaw in both schemes was that as individuals aged contributions became exorbitant.

⁸³⁹ Bayse, *History*, p.65.

⁸⁴⁰ *Ibid.*, p.63; Sackett, *Early History*, p.224.

⁸⁴¹ *The Independent Order of Foresters; The First 21st Year of its Existence* (Ontario, 1895), pp.4, 9.

⁸⁴² Bayse, *History*, p.96.

⁸⁴³ A. Landis and GD Eldridge, *Tables based on the National Fraternal Congress Table of Mortality and Various Rates of Interest* (New York, 1909), p.ix.

⁸⁴⁴ Stevens, *Cyclopaedia*, p.168.

⁸⁴⁵ Bayse, *History*, p.65.

Hostility to reserves blocked the move to the graduated premium model. As discussed, fraternal life insurance was a countermovement against commercial insurance, and many within the movement saw reserves as unnecessary and corrupting.⁸⁴⁶ Henderson noted a suspicion of any measures ‘that smacked of commercialism as practiced by the life insurance companies’.⁸⁴⁷ The 1896 session of the NFC accepted ‘the necessity for increasing rates of assessment’, but only ‘so as to provide an *emergency* fund with which to meet an increased death rate... as the orders grow older’.⁸⁴⁸ The main purpose of such a fund was to cover excessive claims above an expected level rather than to ensure the society was actuarially solvent. The case of the AOUI illustrates the difficulties of moving to a full reserve plan. In 1880 the order established a Relief Fund in response to the Yellow Fever epidemic of the 1870s. This fund would support jurisdictions experiencing an abnormally high mortality rate.⁸⁴⁹ The reform did not lead to reserve pricing. Sackett observed that loyalty to the ‘level dollar contribution was so firmly imbedded in the spirit of the membership that it remained a number of years before any change took place’.⁸⁵⁰ By 1896 the organisation had only gone so far as to establish the step-rate plan in 10 jurisdictions, with the remaining 21 still charging uniform assessments.⁸⁵¹ At the turn of the twentieth century very few societies had accepted that they needed a reserve fund, as was clear from the names given to these funds – ‘emergency’, ‘guarantee’, ‘safety’ and ‘special reserve’ funds.⁸⁵² In 1897 the Knights of Relief, the Home Palladium, the Knights and Ladies of Security, and the Modern Knights Fidelity League, for example, kept a small amount in reserve equivalent to the value of one membership wide assessment or a proportion of this sum.⁸⁵³

From 1893 the NFC pushed for state legislation that would encourage societies to operate financially viable schemes.⁸⁵⁴ Yet the organisation remained ambivalent about accumulating reserves. A follow up resolution by the NFC in 1897 called for a committee to ‘prepare tables of rates upon the level premium, the natural

⁸⁴⁶ *Proceedings of the NFC, 15th, 1901*, p.310; Bayse, *History*, p.61.

⁸⁴⁷ Bayse, *History*, pp.61-2.

⁸⁴⁸ Stevens, *Cyclopaedia*, p.163.

⁸⁴⁹ Bayse, *History*, pp.58-61; Sackett, *Early History*, p.185.

⁸⁵⁰ Sackett, *Early History*, p.237.

⁸⁵¹ Stevens, *Cyclopaedia*, pp.116, 128.

⁸⁵² Dawson, *Assessment*, p.5; Meyer, ‘Fraternal Insurance’, p.90.

⁸⁵³ Stevens, *Cyclopaedia*, pp.118, 130, 137, 144, 157.

⁸⁵⁴ Sackett, *Early History*, p.75.

premium or step-rate plan... by applying to a proper extent the principles of a reserve or emergency fund.⁸⁵⁵ In other words the NFC backed alternative pricing practices and conflated a reserve and an emergency fund. The NFC's 'Uniform Bill' mandated minimum rates of assessment to try and prevent destructive competition, but as the actuary Abb Landis pointed out these rates were useless, as they were not properly calculated to leave an adequate reserve.⁸⁵⁶ In 1901 the NFC responded critically to a report by Landis that advocated reserves, stating that 'it has never been held by this Congress that this is the only safe plan for conducting an... insurance business'.⁸⁵⁷

Another barrier to reform was insufficient data on mortality.⁸⁵⁸ The graduated premium plan only worked if contribution rates were based on accurate estimates of mortality.⁸⁵⁹ One of the main aims of the NFC was to gather this information given that its societies 'know nothing of the rules that govern admissions, lapses, death rates and other questions relating to such organisations'.⁸⁶⁰ It took until 1899 to collect these data. Branch level bookkeeping practices were highly rudimentary. It proved so difficult to acquire the necessary data that the final tables were actually based on the experience of a group of old-line companies. This caused controversy and Bayse recalled that 'much of the agitation over adequate rates in the following years centred about the NFC Table of Mortality'.⁸⁶¹ A number of organisations complained that the tables should have been based on the experience of fraternal insurers, given that they were better at screening members than old-line companies. In response the NFC called on Landis to compile new tables based on the experience of 43 fraternal societies. Yet the NFC's Committee on Statistics and Good of the Orders did not approve Landis' work until 1906, pushing back reform by a decade.⁸⁶²

The upper echelons of the fraternal movement may have accepted the necessity of reserves by the beginning of the twentieth century but it took a long time

⁸⁵⁵ Bayse, *History*, p.97.

⁸⁵⁶ *Proceedings of the NFC, 15th, 1901*, p.312.

⁸⁵⁷ *Ibid.*, pp.38-39.

⁸⁵⁸ Bayse, *History*, pp.95-6; Murray, *Origins of American Health Insurance*, p.224.

⁸⁵⁹ Bayse, *History*, p.66; Meyer, 'Fraternal Insurance', p.105; Meyer, 'Fraternal Beneficiary', p.211.

⁸⁶⁰ Stevens, *Cyclopaedia*, p.160.

⁸⁶¹ Bayse, *History*, p.100.

⁸⁶² *Proceedings of the NFC of America, 9th, 1922*, p.11; Bayse, *History*, pp.100-101.

for the vast majority of members to agree.⁸⁶³ In 1901 the NFC complained that ‘large blocks of membership... are not educated to change’.⁸⁶⁴ In 1909, reflecting on a decade of tireless work, Landis bemoaned that he had done little to change this and concluded that the onus was on officials to use his pedagogical works to ‘talk convincingly to their members’.⁸⁶⁵

Yet fraternalists remained hostile to actuaries.⁸⁶⁶ Many saw actuarial ideas as inextricably bound to commercial life insurance.⁸⁶⁷ Accumulating reserves pushed up the cost of participation for members, making the old-line companies more competitive. Dawson noted that members saw actuaries as ‘false scientist, employed to bolster up the hated hold line business’.⁸⁶⁸ Henderson went even further, arguing that that fraternalism was antithetical to actuarialism;

‘The strength of the fraternal association lies in a certain sympathy, even sentimentality, which binds the members together in strong bonds but which obscures the judgment of reality and hard mathematical facts’.⁸⁶⁹

A suspicion of actuaries never went away. In 1913 the Associated Fraternities of America (AFA), a rival to the NFC, complained that actuaries were regularly wrong and ‘are oft times inclined to be more theoretical than practical’.⁸⁷⁰

There were materialistic reasons behind the rejection of actuarial principles. In 1919 Bayse complained that actuaries ‘have had to bear the brunt of the attacks of demagogues’ because the members ‘thought only of the inroads on their pocket books’.⁸⁷¹ Moving over to the step-rate or the graduated premium plan would have resulted in an increase in contributions.⁸⁷² Any transition from a pay-as-you-go to a funded scheme is intergenerationally unfair in that it is impossible to achieve without

⁸⁶³ Beito, *From Mutual Aid*, pp.134-135.

⁸⁶⁴ *Proceedings of the NFC, 15th, 1901*, p.42

⁸⁶⁵ Landis and Eldridge, *Tables*, p.vi.

⁸⁶⁶ CR Henderson, *Industrial Insurance in the United States* (Chicago, 2nd Edition, 1911), p.80.

⁸⁶⁷ Levy, *Freaks*, p.198.

⁸⁶⁸ Dawson, ‘Fraternal Life’, p.130; Dawson, *Assessment*, p.22.

⁸⁶⁹ Henderson, ‘Industrial insurance IV’, p.40.

⁸⁷⁰ *Proceedings of the NFC, 27th, 1913*, pp.406, 404.

⁸⁷¹ Bayse, *History*, p.211.

⁸⁷² Landis and Eldridge, *Tables*, p.vi.

harming at least one generation disproportionately.⁸⁷³ Landis griped that ‘it is exceedingly difficult to reason with any person whose self interest will be adversely affected by the logic of the argument’.⁸⁷⁴ Any society that sought to undergo ‘readjustment’, as it came to be known, risked losing members and potentially setting off an ‘adverse selection death spiral’.⁸⁷⁵ The Knights of Honor underwent a readjustment in 1892 and lost 7.2% of its members.⁸⁷⁶ The cost for older members was even higher if the increase in rates was intended to cover past years of insufficient contributions. Older members complained that it was unfair to charge them higher rates than they had signed up to. Actuaries responded that this ‘was the lesser of two evils’ as the original rates were mistaken.⁸⁷⁷ Landis argued that equal contributions were ‘iniquitous’ and that increasing the rates for the old was fair; ‘in equity and justice older members have no right to complain’, for they had already reaped the benefits of paying lower contributions over their entire membership.⁸⁷⁸ The only other option was to distribute this deficiency across the entire membership, further pushing up the short run hurdle cost of readjustment.⁸⁷⁹

By the turn of the century a number of fraternalists had come to see legislation as the only way to ‘protect the societies from themselves’.⁸⁸⁰ For Dawson ‘by no other means can the ignorant and unscrupulous be prevented from... concealing their inability to carry out [their] promises for many years’.⁸⁸¹ Bayse argued that legislation was ‘for the protection of both the public and the societies’; ‘the public have the right to expect that these fraternities shall conform to certain regulations’, whilst the societies ‘need protection against fraudulent organisations which would invade their field’.⁸⁸²

In 1886 the NFC was formed to coordinate the passage of uniform legislation at the state level. Yet it took until 1912 for the organisation to achieve this goal.

⁸⁷³ V. Meir and M. Werding, ‘Ageing and the welfare state: securing sustainability’, *Oxford Review of Economic Policy*, 26, 4, (2010), p.665.

⁸⁷⁴ Landis and Eldridge, *Tables*, p.vi.

⁸⁷⁵ As observed by one official in 1914, *Proceedings of the NFC of America, 1st, 1914*, p.98.

⁸⁷⁶ Beito, *From Mutual Aid*, p.134, and Oronhyatekha, *History*, pp.836-55.

⁸⁷⁷ Bayse, *History*, p.156.

⁸⁷⁸ Landis, *Friendly Societies*, pp.98, 103.

⁸⁷⁹ *Proceedings of the NFC of America, 1st, 1914*, pp.92, 96

⁸⁸⁰ *Proceedings of the NFC, 15th, 1901*, p.42.

⁸⁸¹ Dawson, *Assessment*, p.vi.

⁸⁸² Bayse, *History*, p.108.

Unfortunately the question of what form legislation should take became entangled in the intense competition between societies. In 1892 the NFC proposed the ‘Uniform Bill’, which mandated minimum rates (either on the step-wise or graduated premium plan) and required societies undergo periodic valuations. Yet the societies in the NFC were exempt from these requirements. The 1901 version of the Bill stipulated that minimum rates would only be applicable to societies ‘hereafter organised’.⁸⁸³ In response a group of younger societies formed the AFA. The AFA argued that adequate rates should be applied to all fraternalists. They saw the Uniform Bill as a ‘paternalistic ploy by the fraternal old guard to quash rivals’.⁸⁸⁴ It seemed that the NFC was merely trying to protect its own market share – forcing younger societies to use higher contribution rates while ‘old orders were permitted to continue on their low rates’.⁸⁸⁵ The AFA favoured less stringent regulation. Initially it lobbied against minimum rates and pressed for legislation that required periodic valuations, emphasising that ‘abuse cannot thrive in the light of day’.⁸⁸⁶ It took until 1910 for the AFA and the NFC to agree upon legislation, dubbed the Mobile Bill, which established both minimum rates and mandatory valuations.⁸⁸⁷

The delay in passing legislation was costly. As the NFC realised in 1901, societies had been ‘advancing along unsafe lines, ... inviting future trouble’.⁸⁸⁸ In 1906 Landis published a study that quantified the scale of the problem. Due to the complexity of benefit and contribution scales it was difficult to compare societies. Landis computed the present contributions per \$1000 insured at specific ages in 113 societies. To make comparison more comprehensible he also computed what the adequate charge would have been using the life tables of the NFC and assuming a 4% return on capital (a generous assumption). The results were bleak. The vast majority of organisations were guilty of drastic under-pricing. For example the Catholic Order of Foresters, an organisation with 112,266 members, charged \$9.72 per \$1000 insured for a member that entered at age 30. According to Landis’s calculations the adequate rate was \$14.3. In **figure 6.27** I have added up the difference between the present and the adequate charge at each age to establish how much a society was

⁸⁸³ *Proceedings of the NFC, 15th, 1901*, p.36.

⁸⁸⁴ Beito *From Mutual Aid*, p.137.

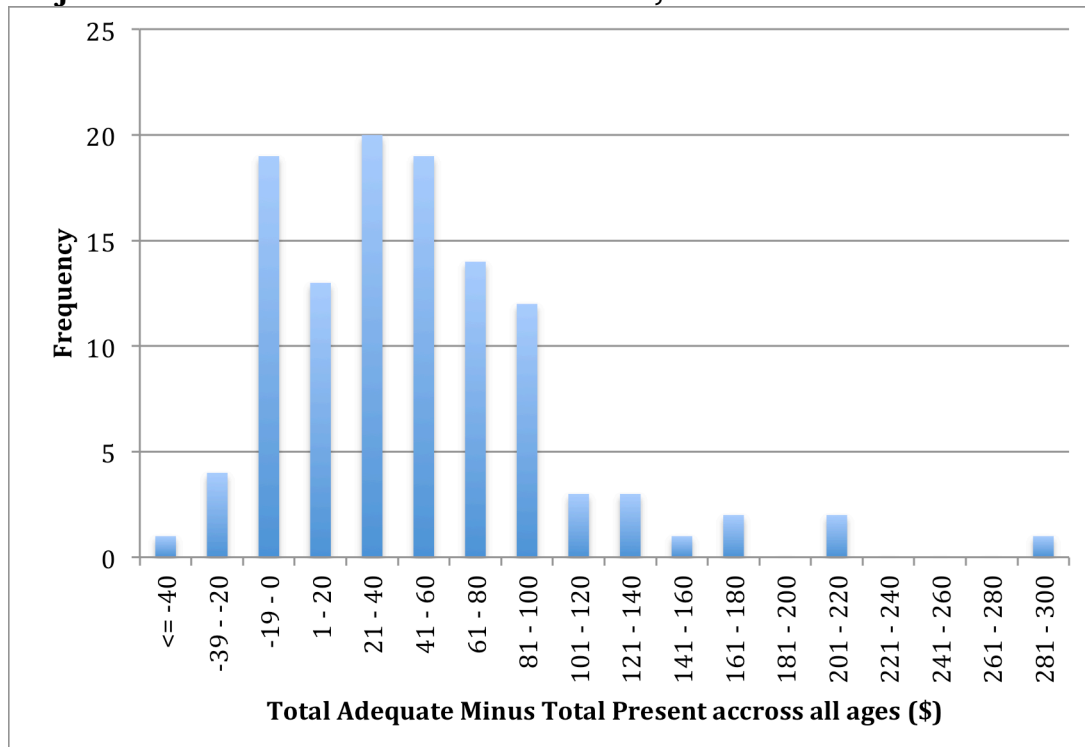
⁸⁸⁵ Bayse, *History*, p.79.

⁸⁸⁶ Beito *From Mutual Aid*, p.139.

⁸⁸⁷ Bayse, *History*, p.76.

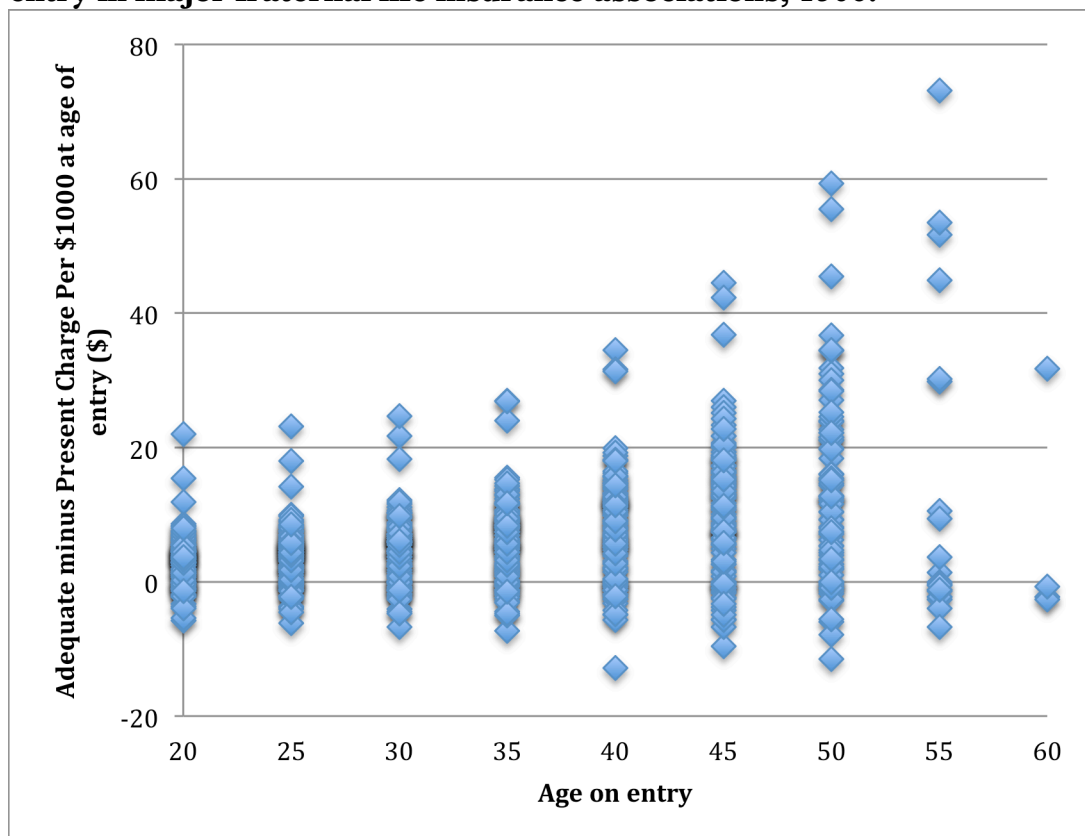
⁸⁸⁸ *Proceedings of the NFC, 15th, 1901*, p.109.

Figure 6.27: Histogram of the aggregate over/under-pricing of benefits in major fraternal life insurance associations, 1906.



Source: Landis, *Analyses of Fraternal Societies*. Note: Mean = 47.62, Standard deviation = 53.28, N = 113 societies.

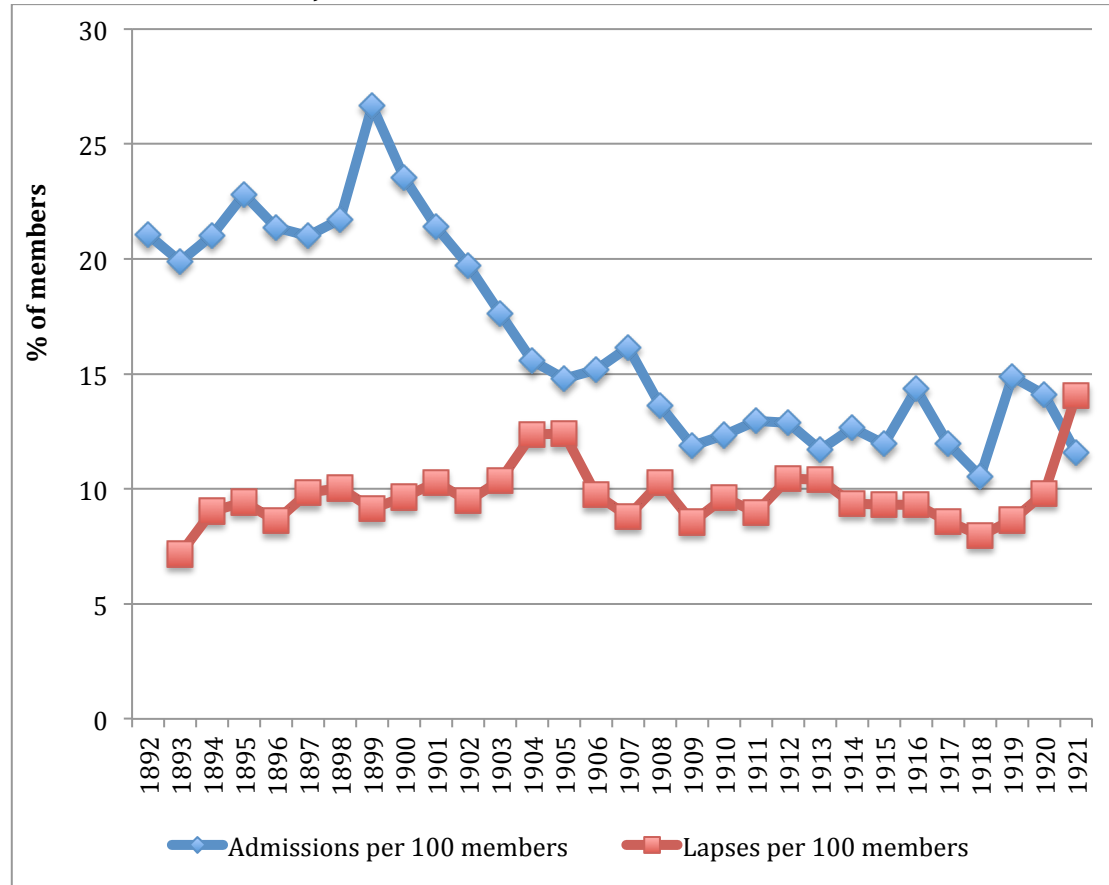
Figure 6.28: Scatter plot showing over/under-pricing of benefits by age of entry in major fraternal life insurance associations, 1906.



over/under charging across all ages. A society with a negative figure was charging more than it needed to, and vice versa. The vast majority of societies were under funded and some by a massive extent. Only 23 of the 113 societies included in the study were over charging. The other societies, with a total membership of 3,305,380 members, were financially vulnerable. **Figure 6.28** shows the effect at specific ages. As age on entry increased the size of the deficiency increased, making readjustment even more difficult. Older members would have to pay much more than younger members to rectify the problem.

Of course fraternal associations could continue to function as pay-as-you-go schemes as long as they added new members. Yet over the first decade of the twentieth century admissions as a percentage of existing members fell from a peak of 26.6% in 1899 to 11% in 1909 (see **figure 6.29**). Moreover between 1893 and 1908 the secession rate increased from 7.1% to 10.2%. Such high rates of secession undermined the pay-as-you-go model, as it was overwhelmingly the young that left.

Figure 6.29 Admissions and secessions as a percentage of members in societies in the NFC, 1892-1921.



Source: *Proceedings of the NFC of America, 9th, 1922, 'Statistical tables', pp.180-181.*

In 1913 the NFC and AFA merged to form the National Fraternal Congress of America (NFC of America). This marked an important turning point in the process of reform. The Mobile Bill established minimum rates and required that societies operate on an actuarially stable plan – whether graduated premium or step-wise. Most societies opted for the former. By 1919 Bayse observed that the majority of fraternal insurers had moved over to reserve accumulation and overall fraternal life insurers had amassed assets totalling \$400 million.⁸⁸⁹ Yet in a number of areas societies remained resistant to change. There were ongoing squabbles over legislation and many societies faced financial hardship, with bouts of readjustment negatively impacting membership rates.

In the 1870s and 1880s fraternal life insurers were emphatic that they did not sell life insurance *contracts*.⁸⁹⁰ This was critical; the rejection of the contract meant societies were not legally bound to fixed contribution and benefit scales. The sum delivered on death and the number of assessments per annum remained flexible. Societies were thus freed from the need to hold a required volume of capital in reserve. Fraternalists were careful to use the term ‘certificate’ not contract. Actuaries like Meyer argued that this was a semantic distinction; ‘the whole is nevertheless an *insurance contract*, pure and simple, and the society issuing such a certificate is doing an insurance business, subject to all the laws and principles applicable to insurance in general’.⁸⁹¹ The fraternalists lost the argument. In 1885 the Iowa Supreme Court issued a decision against the AOUW that supported Meyer’s claim.⁸⁹²

Levy has argued that over the late 1880s, fraternal associations came to accept that a ‘certificate’ was a legally binding contract.⁸⁹³ However there was always hostility to the logic of the contract and the societies never relinquished the right to ‘assess as required’. In 1897 Albert Stevens declared that ‘the mutual agreement between the member and the fraternal society is not a policy or a contract’.⁸⁹⁴ In 1901 the NFC bluntly informed Landis that the assessment method did not pledge certain benefits or contributions to members and therefore both could always be

⁸⁸⁹ Bayse, *History*, p.16.

⁸⁹⁰ Levy, *Freaks*, p.195.

⁸⁹¹ Meyer ‘Fraternal Insurance’, pp.80-81. Meyer, ‘Fraternal Beneficiary’, pp.202-203.

⁸⁹² Levy, *Freaks*, p.226.

⁸⁹³ *Ibid.*, p.226.

⁸⁹⁴ Stevens, *Cyclopaedia*, p.166; and Dawson, *Assessment*, p.104.

altered in the future.⁸⁹⁵ As late as 1919 Bayse observed that fraternal insurers ‘reserve right to assess their members as often as necessary to pay death claims or to maintain actuarial solvency’.⁸⁹⁶

Claiming the right to ‘assess as required’ meant societies could defend operating despite being technically ‘insolvent’: because they had not promised members a fixed contribution rate indefinitely they could, in theory, always call on members for additional funds. In 1896 Dawson noted that this was the reason why most societies only established small reserve fund or ‘emergency’ funds.⁸⁹⁷ Commercial life insurers did not have the right to increase rates, which set a limit on the present value of future contributions. In contrast fraternal life insurance ‘contemplates a premium, ordinarily constant or variable as the case may be, but never fixed or limited’. Consequently ‘while admitting the desirability of carrying a reserve such as... will probably be sufficient together with a continuation of the ordinary premiums to meet all obligations, it does not recognise the necessity of such a reserve ample in any event to help out these ordinary premiums’.⁸⁹⁸

This persistence of the ‘right to assess as required’ had a direct impact on the practical operation of the Mobile Bill, in particular the requirement that societies underwent periodic valuation. For actuarial reformers these valuations would allow members and the public to evaluate the financial viability of societies.⁸⁹⁹ The results would also give societies an indication of how much capital it would take to be declared solvent. Yet the precise form the valuation should take was hotly contested. As the NFC stated in 1901 in response to a report by Abb Landis, ‘we deem it inexpedient to formulate any fixed plan for the doing of this work... [when] the plans of societies are so various and the likelihood of obtaining uniformity so improbable’.⁹⁰⁰ These concerns continued after 1910. The Mobile Bill stipulated that societies conduct annual valuations and show an improvement in their degree of solvency of 5% per annum.⁹⁰¹ Making such a sizable improvement year-on-year was

⁸⁹⁵ *Proceedings of the NFC, 15th, 1901*, p.39.

⁸⁹⁶ Bayse, *History*, pp.19, 212.

⁸⁹⁷ Dawson, *Assessment*, p.7.

⁸⁹⁸ *Ibid.*, p.8.

⁸⁹⁹ *Proceedings of the NFC, 15th, 1901*, p.321; *Proceedings of the NFC of America 9th, 1922*, p.229.

⁹⁰⁰ *Proceedings of the NFC, 15th, 1901*, pp.38-39.

⁹⁰¹ Bayse, *History*, pp.127-8.

extremely difficult, and inevitably meant societies would have had to increase the rates for older members to make up for past years of under-contribution. In 1909 a group of societies suspicious of these regulations broke away from the NFC and formed the Federated Fraternities of America. Under the banner of ‘freedom and publicity’ this organisation protested minimum rates and valuation performance requirements.⁹⁰²

After consideration the NFC of America concluded that the Mobile Bill requirements were ‘too drastic, inasmuch as no workable method was given for assisting old members to make up their deficiencies through easy stages’.⁹⁰³ The Mobile Bill was reformulated in 1912 and became known as the ‘New York Conference Bill’. Societies were subject to triennial valuations, and only had to show that they had not become *less* solvent since their last valuation. This was justified by the principle of the ‘right to assess as required’. The change was a huge concession; it essentially meant societies were allowed to stay stationary, operating on a deficiency, as long as they did not get worse.

The second major amendment in the New York Conference Bill was to allow societies to conduct valuations on the ‘accumulation basis’.⁹⁰⁴ At the time there were two types of valuation, retrospective and prospective. The prospective valuation was the methodology used by British friendly societies (see chapter 1). To determine a society’s assets an actuary used age specific mortality estimates to calculate the present value of future contributions and added to this figure the total value of accumulated capital. Using the tables they also calculated the present value of future liabilities. Valuation on an ‘accumulation basis’ was a form of retrospective valuation. As Landis explained to the NFC of America in 1914, it was a stock take of ‘past cooperation and present accumulation of debits and credits’.⁹⁰⁵ In this method the actuary considered each age group as a separate society and calculated the groups net contributions (past contributions minus claims) as assets and share of the death losses each year as

⁹⁰² Beito, *From Mutual Aid*, p.140

⁹⁰³ Bayse, *History*, p.128.

⁹⁰⁴ *Proceedings of the NFC of America, 1st, 1914*, p.152; Bayse, *History*, p.129; L.A. Anderson, *Valuation and Readjustment of Assessment Life Companies and Fraternal Societies* (Madison, Wisconsin, 1913), p.3.

⁹⁰⁵ *Proceedings of the NFC of America, 1st, 1914*, p.151.

liabilities.⁹⁰⁶ The accumulation valuation ‘looks back over past operations and determines whether or not a member has contributed more or less than sufficient to provide for their share of present losses’.⁹⁰⁷ By defining liabilities as ‘present losses’ – i.e. probable claims in the year of valuation – rather than the present value of all future claims, as in the prospective method, a society could dramatically improve its valuation results.⁹⁰⁸ In 1918 the NFC of America noted that switching to the accumulation method meant a society could ‘appear at once solvent’.⁹⁰⁹ In the same year and again in 1922 the NFC of American complained that the New York Bill was ‘watered down’, and that the accumulation method ‘provided not guide nor guarantee of future solvency’.⁹¹⁰

In a sense the NFC was correct, but the societies were in an impossible position. The majority had been operating on the assessment plan for so long that mandating the more rigorous prospective valuation method would have had further negative consequences. As Landis explained ‘to require such a law would virtually destroy the organisation[s] by legal enactment’.⁹¹¹ The retrospective valuation was more piecemeal, breaking the deficiency in contributions down into annual chunks. L.A. Anderson argued that it ensured older members did not feel ‘frozen out’.⁹¹² In 1914 one delegate at the NFC of America asked Landis ‘is not the underlying philosophy of... [the] plan that instead of putting the thumb-screw on your members all at once you do it a few times’. Landis responded ‘yes... and I think that is the only way you can do it without a great loss’.⁹¹³ The accumulation method also allowed societies to disaggregate members, making it clear what each age cohort owed. For Walter Bayse this ensured new members coming into the society on adequate rates ‘were not robbed of their reserve accumulations in order to make up the deficiencies of those who were paying inadequate rates’.⁹¹⁴

⁹⁰⁶ Bayse, *History*, p.129.

⁹⁰⁷ *Proceedings of the NFC of America, 1st, 1914*, p.151.

⁹⁰⁸ A. Landis, *Life Insurance Problems confronting Fraternal Benefit Societies in reference to valuation and readjustment and their relation to proposed legislation; with lessons from English friendly societies* (Nashville, TN, 1910), p.36.

⁹⁰⁹ *Proceedings of the NFC of America, 5th, 1918*, p.215.

⁹¹⁰ *Ibid.*, p.214; *Proceedings of the NFC of America, 9th, 1922*, p.230.

⁹¹¹ A. Landis, *Life Insurance Premiums: How Computed, Tested and Valued* (Davenport, Iowa, 1902), p.35.

⁹¹² Anderson, *Valuation*, pp.31-32.

⁹¹³ *Proceedings of the NFC of America, 1st, 1914*, pp.161-162.

⁹¹⁴ Bayse, *History*, p.129.

The piecemeal nature of the accumulation method was also its weakness. In 1918 a group of representatives at the NFC of America complained that because the accumulation method broke liabilities down into annual chunks, it was actually impossible for the members to know what the real future cost of participation would be. A huge looming deficiency might be hidden for years, only to suddenly appear when it became due.⁹¹⁵ In 1922 the Committee on the State of the Orders and Statistics complained that many societies were in the dark as to whether they were technically solvent.⁹¹⁶ Nevertheless the accumulation method took hold. The annual reports of the NFC of America only recorded ‘accrued liabilities’, i.e. the value of predicted claims over each year.⁹¹⁷

The popularity of the less stringent accumulation method was a consequence of societies having delayed readjustment for so long. In 1919 Walter Bayse succinctly summarised the problem: ‘the longer the accumulation of a reserve is delayed, or the increase of rates is postponed, the harder will be the penalty... this is what the old members suffered’.⁹¹⁸ The actuary and official DP Markey reminded the NFC of America in 1914 that he had called for adequate rates in 1898, and that ‘if we had all adopted it then we would have saved a good deal of trouble’.⁹¹⁹ Squabbling within the fraternal movement had delayed the passage of legislation, allowing deficiencies to grow even larger. Consequently a number of societies had to undergo further rounds of readjustment after 1913. In 1927 Charles Metz observed that ‘fraternalism has its casualties’, and that a great many societies had failed ‘because the insurance projects upon which they were built turn out to have been miscalculated’.⁹²⁰ To the surprise of actuaries, some societies had not learned the lesson that a half-hearted readjustment could be costly. In 1914 Markey reported the case of a failed readjustment by the Modern Woodmen of America to the NFC. The society had adopted rates that were 50% of those recommended, which had prompted a large number of younger members to leave and so ‘by reason of adverse selection a tremendous loss

⁹¹⁵ *Proceedings of the NFC of America, 5th, 1918*, p.214

⁹¹⁶ *Proceedings of the NFC of America, 9th, 1922*, pp.167-168.

⁹¹⁷ *Ibid.*, p.167.

⁹¹⁸ Bayse, *History*, p.161; see also I.M. Rubinow, *Social Insurance with Specific reference to American Conditions* (New York, 1913), p.223.

⁹¹⁹ *Proceedings of the NFC of America, 1st, 1914*, p.97.

⁹²⁰ Metz, ‘Sweet Land’, p.52.

occurred'.⁹²¹ The Woodmen was in a worse position than before because the remaining members were still paying inadequate rates, yet the average age of the membership had increased.⁹²² Readjustment led to problems in other societies. The NFC of America blamed the huge increase in secessions and decline in admissions in 1921 on the fact that a number of member societies were undergoing readjustment.⁹²³ Between 1920 and 1921 the value of insurance terminated by secession increased from \$5.22 million to \$8.82 million.⁹²⁴ Between 1919 and 1921 the percentage of members seceding increased from 8.6% to 14%, while the number of admissions per 100 existing members fell from 14.8 to 11.5.⁹²⁵ The experience of the Woodmen suggests that destructive competition was ongoing. In 1916 the NFC complained that 'those societies that have not readjusted their rates... are the one that are making the greatest progress in point of securing new members', and that competition was still proceeding on an 'unfair and unjust' basis.⁹²⁶

Section 4: The regulatory environment in the US and Britain

A number of fraternalists looked to the experience of the British friendly societies for a guide to financial reform.⁹²⁷ In 1900 the American actuary Abb Landis wrote that the fraternalists had a great deal to learn from the British friendly societies:

'The same underlying principles govern the business operation of Friendly Societies and Fraternal orders.... Both must provide funds from the contributions of members, and both collect these funds by monthly or quarterly assessments. The costs of benefits to both are subject to the same laws of nature, which increase that cost with advances in age. The same provisions must be made by both to meet present and future cost of benefits promised. It follows, therefore, that the experience is very material to the other'.⁹²⁸

⁹²¹ *Proceedings of the NFC of America, 1st, 1914*, p.91.

⁹²² *Ibid.*, p.91.

⁹²³ *Proceedings of the NFC of America, 9th, 1922*, p.165.

⁹²⁴ *Ibid.*, p.166; *Proceedings of the NFC of America, 7th, 1920*, p.70.

⁹²⁵ *Proceedings of the NFC of America, 9th, 1922*, Statistical tables, pp.180-181.

⁹²⁶ *Proceedings of the NFC of America, 3rd, 1916*, pp.115-116.

⁹²⁷ Beito, *From Mutual Aid*, p.136; *Proceedings of the NFC, 15th, 1901*, pp.111, 118-9.

⁹²⁸ Landis, *Friendly Societies*, pp.16-17, 3.

Landis urged the NFC to learn from the friendly societies, which had undergone the same process of actuarial reform in the second half of the nineteenth century (although in varying degrees, as discussed in chapter 1).⁹²⁹

British friendly societies began the process of actuarial reform in the mid-nineteenth century. This involved many of the challenges that the fraternal life insurers faced – a hostility to actuaries, the high hurdle cost of readjustment, the associated loss of members, and the difficulties involved in convincing members and autonomous branches to change. However as Miles Dawson noted in 1896, in contrast to the American experience the process of actuarial reform was more complete and less drawn out in Britain.⁹³⁰ Within the large affiliated orders the worst debates took place between 1840 and 1880, and although there was always some residual tension by the end of the nineteenth century the majority of societies were receptive to actuarial guidance.⁹³¹ Indeed these societies helped incubate the actuarial profession by employing the likes of Alfred Watson, Henry Ratcliffe and Francis Neison. The tone of the Grand Master of the Oddfellows, speaking at the Portsmouth AMC in 1900, is illustrative of the collaborative relationship that had developed:

It is understood that the substantial progress is being made with the new investigation into the sickness and mortality experience of our society, and it is gratifying to learn from the actuaries that the material in their hands... is ... of far greater volume than has been available for any previous investigation of the kind.⁹³²

In order to understand why actuarial reform took longer in US than Britain, and was more incomplete, it is important to explore the role of state institutions.⁹³³ This approach aligns closely with the ‘historical-Institutionalists’ school of thought, which argues that the development of social policy in the US was primarily shaped by

⁹²⁹ *Proceedings of the NFC*, 15th, 1901, p.306.

⁹³⁰ Dawson, *Assessment*, p.iv; R. Lubove, *The Struggle for Social Security, 1900-1935* (Cambridge, Mass, 1968), p.20.

⁹³¹ Cordery, *British Friendly Societies*, p.177.

⁹³² Landis, *Friendly Societies*, p.16.

⁹³³ ‘T. Skocpol and E. Amenta, ‘Did Capitalists Shape Social Security’ *American Sociological Review*, 50, 4, (1985), pp.572-575; T. Skocpol, *Protecting mothers and soldiers: the political origins of social policy in the United States* (Cambridge, Mass, 1992); T. Skocpol and E. Amenta, ‘States and social policies’, *American Review of Sociology*, 12, (1986), pp.131-157.

the institutional structure of the federal state. Skocpol has argued, for example, that the US failed to develop a state pension largely because of the prior experience of the Civil War pension system and the highly politicised nature of social security expenditure. In the absence of a de-politicised civil service there was a general consensus that pensions would be used to buy votes at the local-level.⁹³⁴ This chapter also emphasises the importance of state institutions in shaping the process of actuarial reform in Britain and the US.

In Britain the presence of a state institution responsible for working with the friendly societies, the Registrars office, encouraged actuarial reform with long-lasting consequences. This was a view held by leading luminaries in the movement. J.F. Wilkinson argued that numerical growth and financial improvement between 1870 and 1890 was ‘undoubtedly... largely due to the influence of legislation and parliamentary action’.⁹³⁵ Between 1793 and 1911 parliament showed remarkable consistency in the legal treatment of friendly societies. The Registrar’s office was responsible for registering rules, compiling annual reports, and monitoring (without coercing) societies. The principle of voluntary registration reigned supreme.⁹³⁶ However the Registrar sought to promote the growth of the friendly societies and encourage financial modernisation. Successive friendly society Acts incentivised registration by conferring upon registered societies various advantages. Under the Friendly Society Act of 1896 a registered society could:

- 1) Legally hold land and property in the name of trustees.
- 2) If an officer of a society was expelled, then the society had the legal right to claim any funds or goods entrusted to the individual.
- 3) The society was free from stamp duty.
- 4) The society could accept members under 21 and take binding receipts from them.
- 5) A society could invest money with the National Debt Commissioner.
- 6) Officers were legally bound to render account and give up all money or property in their possession on demand, and could be compelled to do so by the County Court or the magistrates.
- 7) Disputes were open to being legally settled according to the societies own rules, and if no resolution was found the society could appeal to the Registrar.

⁹³⁴ A.S. Orloff and T. Skocpol ‘Why Not Equal Protection? Explaining the Politics of Public Social Spending in Britain, 1900-1911, and the United States, 1880s-1920’, *American Sociological Review*, 49, 6 (1984), pp.726-750.

⁹³⁵ Wilkinson, *Mutual Thrift*, p.142.

⁹³⁶ Cordery, *British Friendly Societies*, p.85.

- 8) Societies were entitled to call in the services of the public auditors for the auditing of its accounts.⁹³⁷

Over the nineteenth century the Registrars' office promoted financial and actuarial reform. Government anxiety was highlighted in a letter from the Home Secretary, H.A. Bruce inviting Sir Stafford Northcote to become the chairman of the 1874 Royal Commission into friendly societies: 'The state of the law is not found to prevent societies duly certified from being fraudulently and incompetently managed [and] Tidd Pratt believed that not 25 not of the 20,000 friendly societies were so managed to secure them from considerable risk of failure'.⁹³⁸ This was a long-standing concern, as is evident in the friendly society Acts. The 1818 and 1819 Acts required the rules of a society to be written 'by persons skilled in arithmetical calculations'.⁹³⁹ The American actuary Meyer thought that these two Acts, though limited, were particularly significant because they encouraged sound financial management early on in the history of the movement.⁹⁴⁰ The Act of 1829 required reports every five years on the sickness and mortality experience of the society.⁹⁴¹ The Acts of 1834 and 1846 established more practical ways of assisting societies in collecting this information. The Act of 1850 mandated annual financial returns and created two categories of officially recognised societies, certified and registered, depending on the level of scrutiny undertaken.⁹⁴² An officer of the society could audit a 'registered' society, but to qualify for certified status an actuary had to audit the accounts. This measure was dropped in 1854, but it was representative of the Registrar's appetite for actuarial reform.⁹⁴³ The legislation of 1875 was the most comprehensive. Quinquennial valuations became compulsory, and the Act made provision for the appointment of public valuers by the treasurer. It also appointed an actuary to the Registrar.⁹⁴⁴

As in the US, a constant barrier to reform was lack of central power in the large federated societies. Sacket recalled that in the AOUI attempts at consolidating

⁹³⁷ Landis, *Friendly Societies*, p. 21.

⁹³⁸ J.R. Edwards and R. Chandler, 'Contextualizing the Process of Accounting Regulation: A Study of Nineteenth-Century British Friendly Societies', *Abacus*, 37, 2, (2001), p.200.

⁹³⁹ Bayse, *History*, p.30.

⁹⁴⁰ Meyer, 'Fraternal Insurance', p.101.

⁹⁴¹ Bayse, *History*, pp.30-31.

⁹⁴² Walter, 'The History', p.191.

⁹⁴³ Cordery, *British Friendly Societies*, p.87.

⁹⁴⁴ Bayse, *History*, p.34.

funds in the 1880s were frustrated by the ‘spirit of independence that tended to the repudiation of obligations’ to other branches.⁹⁴⁵ Getting branches to fall into line was an enduring issue. The AOUW established the principle of a maximum rate of assessment in 1880 but it took until 1906 for this to work through to the branch level.⁹⁴⁶ In Britain the Registrar played a particularly important role in helping overcome this obstacle. After 1875 it promoted legislation to strengthen the power of central authorities in the affiliated orders. For example, protecting societies from internal schism by restricting the ability of branches to secede and register separately.⁹⁴⁷ Moreover under the Act of 1875 one criteria of registration for a branch of an affiliated order was contribution to a central fund.⁹⁴⁸ It is striking the extent to which the large societies used the Registrar to assist them in forcing reform on recalcitrant branches. In 1875 the Foresters and the Oddfellows sent a request to Sir Stafford Northcote for legislation compelling their own branches to register, conduct audits, use only official tables of benefits and contributions and employ licensed actuaries to prepare quinquennial returns.⁹⁴⁹ The address took Northcote by surprise, as the societies went far further than he had imagined in calling for compulsory measures.⁹⁵⁰

A number of American fraternalists greatly admired the British regulatory framework. Bayse argued that the Act of 1875 ‘placed the friendly societies on a scientific plan of operation, headed towards solvency and a permanent future’.⁹⁵¹ Landis noted that the ‘valuation laws of England have saved hundreds of the Friendly Societies’.⁹⁵² The approach of Parliament and the Registrar can broadly be termed ‘regulatory voluntarism’; legislators were doggedly committed to voluntary registration and reluctant to impose on societies, but they also wanted to ensure registered societies were adhering to certain standards.⁹⁵³ For JF Wilkinson this approach was an example of reserved *laissez-faire*, and it was consistent with state

⁹⁴⁵ Sackett, *Early History*, p.183.

⁹⁴⁶ *Ibid.*, p.196.

⁹⁴⁷ Cordery, *British Friendly Societies*, p.157

⁹⁴⁸ Gosden, *Self-help*, pp.98-99.

⁹⁴⁹ Cordery, *British Friendly Societies*, pp.156-7.

⁹⁵⁰ Walter, ‘The History’, p.203.

⁹⁵¹ Bayse, *History*, p.33.

⁹⁵² Landis, *Life Insurance Problems*, p.38.

⁹⁵³ Cordery, *British Friendly Societies*, p.85.

intervention in other areas.⁹⁵⁴ Writing in 1898 then Registrar William Brabrook emphasised that the current legislation did not mandate particular benefit and contribution scales. Societies were ‘left entirely at their own discretion as to the soundness of the conditions on which they grant insurances’.⁹⁵⁵ Yet the Royal Commission in 1874 reasoned that some level of state intervention was necessary because ‘such institutions [friendly societies] are liable to gross perversion, and may, partly through ignorance and partly through fraud, be made engines of mischief’.⁹⁵⁶ The report saw this as a problem that the societies could not solve without the state’s help:

‘that the members, if left to themselves, have no means of guarding themselves against these abuses, where they often cannot discover until irreparable mischief has been done... [and] consequently many persons are discouraged from joining them and that other who do join them find themselves ruined by doing so; that the State has the means, if not of absolutely preventing all these evils, at least of averting some of them, and of placing the members of the various societies in a position which will enable them... to discover whether their affairs are being properly conducted’.⁹⁵⁷

In the parlance of modern economics, the role of the state and the purpose of the registration system was to eliminate information asymmetries. For Northcote this took two forms: firstly ‘giving information which may be of use to the... managers of societies, and may assist them in framing proper rules and tables’; and secondly ‘requiring managers of societies to give such information to the public as may enable intelligent persons to judge for themselves... what the real position of any particular society is’.⁹⁵⁸ From 1875 legislation may not have imposed compulsory standards, but for Brabrook:

‘What the Act does provide, however, is that the members of a society shall have ample means of knowing what are the contracts into which they are entering, how their members are carrying on

⁹⁵⁴ Wilkinson, *Mutual Thrift*, p.144; S. Conway, ‘Bentham and the Nineteenth Century Revolution in Government’, in R. Bellamy (ed.), *Victorian Liberalism: Nineteenth-Century Political Thought and Practice* (London, Routledge, 1990), p.71; R.L. Crouch ‘Laissez-Faire in Nineteenth Century Britain: Myth or Reality’, *The Manchester School*, 35, 3, (1967), p.209.

⁹⁵⁵ Brabrook, *Provident*, pp.51-52.

⁹⁵⁶ *Forth report of the commissioners, Part 1* [C.961], p.xvi.

⁹⁵⁷ *Forth report of the commissioners, Part 1* [C.961], p.xvi.

⁹⁵⁸ Edwards and Chandler, ‘Contextualizing’, p.211; reflected in the report, see *Forth report of the commissioners, Part 1* [C.961], p.xviii.

the business, and what is the financial condition of the concern, and of themselves originating and carrying into effect the reforms which the periodical valuations from time to time show to be necessary'.⁹⁵⁹

This stemmed from the belief that if all the necessary information was made publically available then the market mechanism would ensure an optimal outcome. In theory individuals would not join poorly managed societies and over time only prudentially managed organisations would survive. This approach was thoroughly liberal. In a speech in Manchester in 1875 Northcote noted that the commissioners took the view that 'the only and true way of bringing about a development of the virtue of providence amongst the people was to make them work it out for themselves'.⁹⁶⁰

The most important effect of the Registrar was to embed financial viability in the competition between societies for members. An important theoretical starting point is George Akerloff's model of a 'market for lemons'.⁹⁶¹ Akerloff was referring to a hypothetical used car market where dud cars were termed 'lemons', but he noted that the market for health insurance was 'strictly analogous'.⁹⁶² Individuals looking to join a friendly society were operating within a market where the quality of the products on offer was uncertain. While buyers could look at the contributions and benefits on offer, it was very difficult/impossible to know which societies were viable in the long term. Over time asymmetries of information developed. Once an individual joined a society they would be in a position to know a great deal more about its financial position. A struggling society could increase contributions relative to benefits, or raise a levy. Yet competition for members made it difficult to do this without losing out to another society, presenting societies with an intractable collective action problem.⁹⁶³ Another tried and tested strategy was to go on a recruitment drive, pulling in new members. Moreover, there was a free rider problem. In an affiliated society weaker lodges could ride on the coattails of stronger lodges. The 'brand' or 'trade mark' of an order like the MUIOOF signalled

⁹⁵⁹ Brabrook, *Provident*, pp.51-52.

⁹⁶⁰ Edwards and Chandler, 'Contextualizing', p.211.

⁹⁶¹ G. Akerloff, 'The Market for "Lemons": Quality Uncertainty and the Market Mechanism', *The Quarterly Journal of Economics*, 84, 3, (1970), pp.488-500.

⁹⁶² *Ibid.*, pp.492-3.

⁹⁶³ *Forth report of the commissioners, Part 1* [C.961], p.xxxv.

quality.⁹⁶⁴ If branches were totally free from central control there would have been an incentive to reduce the contributions and/or increase the benefits for existing members because the society could still attract members on the back of the credibility of the order as a whole. More stable branches would have felt understandably aggrieved that they were bearing the cost of maintaining the reputation of the order, and might have copied unscrupulous lodges.

Akerloff argued that a ‘market for lemons’ could be blocked by the formation of counteracting institutions –institutions that would reduce quality uncertainty through licensing, trademarks, branding and guarantees.⁹⁶⁵ The Registrar operated as a licensing authority. The mark of the Registrar came to be associated with long-term financial viability. Assuming that individuals preferred a financially viable society to an unstable one, then societies had an incentive to register. For many years, particularly before 1870, many societies did not and this was mainly because the Registrar from 1835 to 1870, Tidd Pratt, was particularly critical of sociable activities when these were one of the major benefits on offer.⁹⁶⁶ Secondly many societies feared that registration would lead to interference and it took time for this fear to dissipate. However by the 1880s the majority of societies had registered.⁹⁶⁷ Once it was in the competitive interests of societies to register, the Registrar could increase the actuarial demands on societies and over time make them more stable. As discussed, the Registrar also encouraged centralisation in the affiliated societies. This prevented freeriding, because central authorities could force branches to maintain standards with the threat of expulsion.⁹⁶⁸

The approval of the Registrar operated as a quality control. The Royal Commission of 1874 pointed out that when a man joined a friendly society the certificate of the Registrar followed him.⁹⁶⁹ This was not a *guarantee* of the financial

⁹⁶⁴ See B. Klein and K.B. Leffer, ‘The role of Marketing Forces in Assuring Contractual Performance’ *Journal of Political Economy*, 89, 41, (1981), pp.615-641; C. Shapiro, ‘Premiums for High Quality Products as Returns to Reputation’, *The Quarterly Journal of Economics*, 98, 4, (1988), pp.659-680; W.M. Landers and A. Posner, ‘Trade Mark Law: An Economic Perspective’, *Journal of Law and Economics*, 30, 2, (1987), pp.265-309.

⁹⁶⁵ Akerloff, ‘The Market’ pp.499-500.

⁹⁶⁶ Cordery, *British Friendly Societies*, pp.88-91.

⁹⁶⁷ Harris, *The Origins*, p.81.

⁹⁶⁸ Wilkinson, *Mutual Thrift*, p.219.

⁹⁶⁹ P.H.J.H. Gosden, ‘Pratt, John Tidd (1797–1870)’, *Oxford Dictionary of National Biography*, (Oxford, 2004), accessed 18/06/2015 at [<http://www.oxforddnb.com/view/article/22706>].

viability of a society, as numerous authors went to great lengths to point out.⁹⁷⁰ Yet non-registered societies were subject to far less oversight and scrutiny. Moreover once a society registered it was compelled to make a large volume of information publically available, thus ‘permitting the societies to work out their salvation under the weight of public opinion and the desire to become enduring’ in the words of Walter Bayse.⁹⁷¹ J.F. Wilkinson argued that periodic valuations would ‘restore confidence in the management, and... give the public confidence that the society was properly managed.’⁹⁷² Abb Landis was also sympathetic to the system:

‘It were better for the Fraternal orders if we had similar legislation in the United States... the members of the order could at least jeopardize their protection “with their eyes open”, when they refused to accept reform’.⁹⁷³

Moreover whilst the Registrar did not impose standards on non-registered societies it vigorously pursued registered ones that reneged on standards they had already sign up to. Under the provisions of the 1875 Act the Registrar could sue societies for failing to submit valuations every five years, and it did so 785 times between 1875 and 1890.⁹⁷⁴

Carlyon has provided a similar analysis of the role of the Registrar in New Zealand. When friendly societies first arrived in the early 1840s morbidity and mortality tables were still being completed. Many branches charged uniform contributions or used inaccurate scales.⁹⁷⁵ In 1877 only a small percentage of societies were charging contributions that the chief actuary considered adequate. Yet by 1907 all registered societies were charging graduated contributions based on actuarially sound scales.⁹⁷⁶ The Registrar played a pivotal role in this transition. For Carlyon the Registrars William E Brown, between 1876 and 1885, and Edmund Mason from 1885 were ‘crusaders’ of reform. Between them they ‘encouraged, cajoled, educated and when all else failed, threatened recalcitrant societies into implementing sound

⁹⁷⁰ Toynbee, ‘On the Present’, p.900; Wilkinson, *Mutual Thrift*, pp.231-232.

⁹⁷¹ Bayse, *History*, p.34.

⁹⁷² Wilkinson, *Mutual Thrift*, p.94.

⁹⁷³ Landis, *Friendly Societies*, p.114.

⁹⁷⁴ Cordery, *British Friendly Societies*, p.149.

⁹⁷⁵ Carlyon, ‘New Zealand Friendly Societies’, p.168.

⁹⁷⁶ *Ibid.*, p.167.

financial and management practices'.⁹⁷⁷ Without registration and the attendant benefits the friendly societies of New Zealand would have never made the transition from small 'box clubs' into reliable insurance organisations

As in Britain, Acts of parliament encouraged and then enforced the application of actuarial principles. The major Acts of 1867, 1877, 1882 and 1909 were modelled on British legislation.⁹⁷⁸ The main purpose of the 1867 Act was to incentivise registration but it also included fines for failure to send complete returns and societies were required to adopt systematic book-keeping practices.⁹⁷⁹ The 1877 Act was modelled on the British legislation of two years prior with some amendments. Again the Registrar was highly committed to making registration attractive and so after some debate the final draft did away with the requirement that societies have their contribution and benefit scales certified by an approved actuary. As in Britain standards were gradually ramped up. By 1909 registered societies were subject to a comprehensive list of requirements including the use of approved tables of contributions and benefits.⁹⁸⁰

The New Zealand Registrars also promoted centralisation in the affiliated orders and the consolidation of funds. A number of Acts granted district authorities power over branches and this was critical to the success of actuarial reformers. In 1873 the Auckland district of the Oddfellows introduced recalculated graduated premiums. The Good Intent lodge, the oldest and richest in the district, complained about the change and requested exemption. Yet the friendly society Act of 1867 had given central authorities more powers over branches, and hence the Good Intent lodge had to accept the change.⁹⁸¹ At the beginning of the twentieth century the Registrar also began encouraging branches to consolidate their funds. This proceeded slowly over the first decades over the twentieth century. Again, the Registrar made a number of critical interventions. For example, in 1912 the Auckland district of the Oddfellows, after years of debate, resolved to consolidate. However a group of the older lodges objected. The lodges argued that section 40 of the 1909 Act forbade the

⁹⁷⁷ *Ibid.*, p.166

⁹⁷⁸ *Ibid.*, p.160.

⁹⁷⁹ *Ibid.*, pp.160, 163.

⁹⁸⁰ *Ibid.*, pp.163, 165.

⁹⁸¹ *Ibid.*, p.170.

transfer of moneys between branches. The Registrar quickly drafted an amendment that repealed section 40.⁹⁸² From 1915 onwards branches were permitted to consolidate with the provision that any recalcitrant branch would have to form an independent society. This discouraged resistance and by 1938 almost all the major societies had consolidated funds at the district level.⁹⁸³

In contrast to Britain and New Zealand there were a number of flaws in the regulatory environment in the US. Firstly, there was no national office responsible for monitoring and supporting fraternal insurers.⁹⁸⁴ Henderson noted that ‘central direction and supervision by the [federal] state is unknown’.⁹⁸⁵ This made it more difficult to establish regulation that placed fraternal on a sound financial footing because reformers had to persuade legislators state-by-state.⁹⁸⁶ The state level superintendents of insurance were the main officers responsible for engaging with the societies. Some suggested establishing a national office like the Registrar. Meyer argued that ‘the United States Congress should establish a federal bureau for the national supervision of all fraternal and insurance organisations’.⁹⁸⁷ Yet this was highly unlikely. The federal government could only regulate interstate commerce and *Paul vs. Virginia* (1869) established the principle that life insurance did not fit in this category.⁹⁸⁸ Walter Bayse wrote:

‘It is doubtful that any living person will ever see Federal supervision of insurance in the United States. The reason is that this prediction can be made safely is for the fact that it would require an amendment to the Constitution of the US to permit the national government to exercise authority over the insurance business.’⁹⁸⁹

Secondly, whereas in Britain the friendly societies were given special legal treatment and had an office of state exclusively tasked with supporting them, in the US fraternal had to deal with the state-level superintendents of insurance. These officers were generally supportive of the fraternal movement. Yet as Bayse

⁹⁸² *Ibid.*, pp.178-179.

⁹⁸³ *Ibid.*, p.179.

⁹⁸⁴ Bayse, *History*, p.109.

⁹⁸⁵ C.R. Henderson, ‘Industrial Insurance XII: Survey and Outlook’, *American Journal of Sociology*, 14, no.4 (Jan., 1909), p.459.

⁹⁸⁶ Meyer, ‘Fraternal Insurance’, p.106.

⁹⁸⁷ Meyer, ‘Fraternal Beneficiary’, p.207.

⁹⁸⁸ Bayse, *History*, p.111.

⁹⁸⁹ *Ibid.*, pp.109-110.

complained in 1919, ‘there has been a tendency among some commissioners to apply the same rules to both the old line companies and the fraternal societies... [and] forget that fraternal benefit societies are mutual co-operative enterprises, not conducted for profit, and therefore are entitled to special consideration’.⁹⁹⁰ This led to the suspicion that the superintendents were agents of the old-line companies.⁹⁹¹ Henderson noted that ‘not seldom have state commissioners of insurance... suggested the protective measures which must be taken... But [these] have only too generally been regarded with suspicion and hostility, and there has been a constant antagonism between the... commissioners of states and the representatives of the societies’.⁹⁹²

It fell to peak bodies like the NFC and the AFA to encourage actuarial reform.⁹⁹³ Sacket believed that ‘these bodies have been the central school from which has radiated the best thoughts and most careful investigations as to what was needed to preserve the integrity of the movement’.⁹⁹⁴ The NFC was initially formed to lobby for uniform legislation across the US – in response to the irregularities that had emerged as a result of the state superintendent framework.⁹⁹⁵ Yet quickly the campaign for legislation became enmeshed in the intense competition between societies. As early as 1890 the NFC called for legislation but the stated aim was to ‘protect ourselves from the many fraudulent organisations that are flooding the country under the garb and cloak of fraternity’.⁹⁹⁶ The societies in the NFC were essentially promoting legislation to protect their market share. In Britain no one society or group of societies controlled the Registrar, although they could certainly have an influence. Legislation was kept more distinct from ongoing competition between different societies. This made it easier for the Registrar to enact measures that encouraged actuarial reform. It is also worth noting that the importance of the NFC and AFA meant that fraternal life insurance orders played a dominant role in the formulation of regulation, allowing fraternal sickness insurance to fall through the

⁹⁹⁰ Ibid., pp.109-110.

⁹⁹¹ Stevens, ‘Fraternal Insurance’, p.228.

⁹⁹² Henderson, ‘Industrial Insurance, IV’, p.41.

⁹⁹³ Beito, *From Mutual Aid*, p.134.

⁹⁹⁴ Sackett, *Early History*, p.239.

⁹⁹⁵ *Proceedings of the NFC, 1st, 1914*, p.27.

⁹⁹⁶ Bayse, *History*, p.114.

cracks. Emery and Emery do not discuss the fact that the 1892 Uniform Bill and all subsequent legislation excluded sickness insurers like the IOOF and the Redmen.⁹⁹⁷

When regulation did emerge in the US it was too much, too late. In Britain the Registrar adopted a gradualist approach to actuarial reform, encouraging registration first and only then intensifying the requirements on societies. This allowed a number of societies to continue to improve gradually even if they did not meet the highest standards of actuarial stability. By the late 1870s friendly societies were booming in a properly regulated market place. In the US the on-going battles between the NFC, the AFA and the FFA over the form legislation would take delayed the process of actuarial reform. It took until 1912 for societies to move from a pay-as-you-go system to holding reserves. As Edward J Dun, historian of the fraternal movement, neatly summarised, readjustment ‘forced on already mangled societies was particularly destructive’.⁹⁹⁸ Zanjani has shown that once legislation was developed the fraternal life insurance movement never recovered. In 1910 only 13 states had a law requiring periodic valuations and minimum contribution scales. By 1920 39 states, representing just over 80% of the population, had such laws.⁹⁹⁹ This decimated the industry. In 1895 the fraternal share of the US life insurance market was over 50%. By 1920 this figure had fallen to 12% (see **figure 6.30**).¹⁰⁰⁰ As discussed, after 1913 a number of rounds of readjustment led to high rates of secession and falling admission rates.¹⁰⁰¹ What was particularly worrying was that so many ‘young and healthy’ were leaving the fraternal movement.¹⁰⁰² As **Graphs 6.31, 6.32** and **6.33** show, the fraternal life insurance movement was literally dying off. Between 1912, before the passage of the New York Conference Bill, and 1921 the age structure of the members of societies in the NFC of America shifted. The proportion of members above the age of 40 increased and although the proportion under 18 increased, there was a decline in every other age band under 30. The societies were still growing in size, but the net change was much greater at older age cohorts (see graphs **6.32** and **6.33**).

⁹⁹⁷ Ibid., p.153.

⁹⁹⁸ Beito, *From Mutual Aid*, p.142.

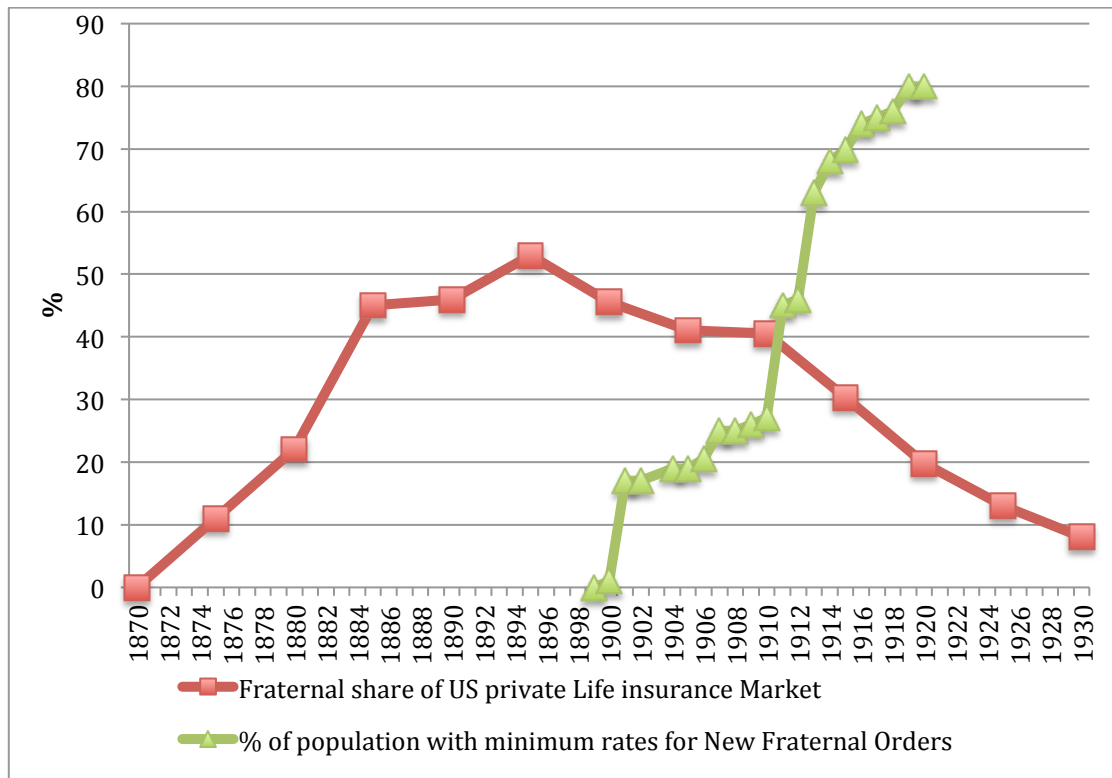
⁹⁹⁹ Zanjani, ‘The Rise’, pp.13-14.

¹⁰⁰⁰ Ibid., p.37.

¹⁰⁰¹ *Proceedings of the NFC of America*, 7th, 1920, p.70.

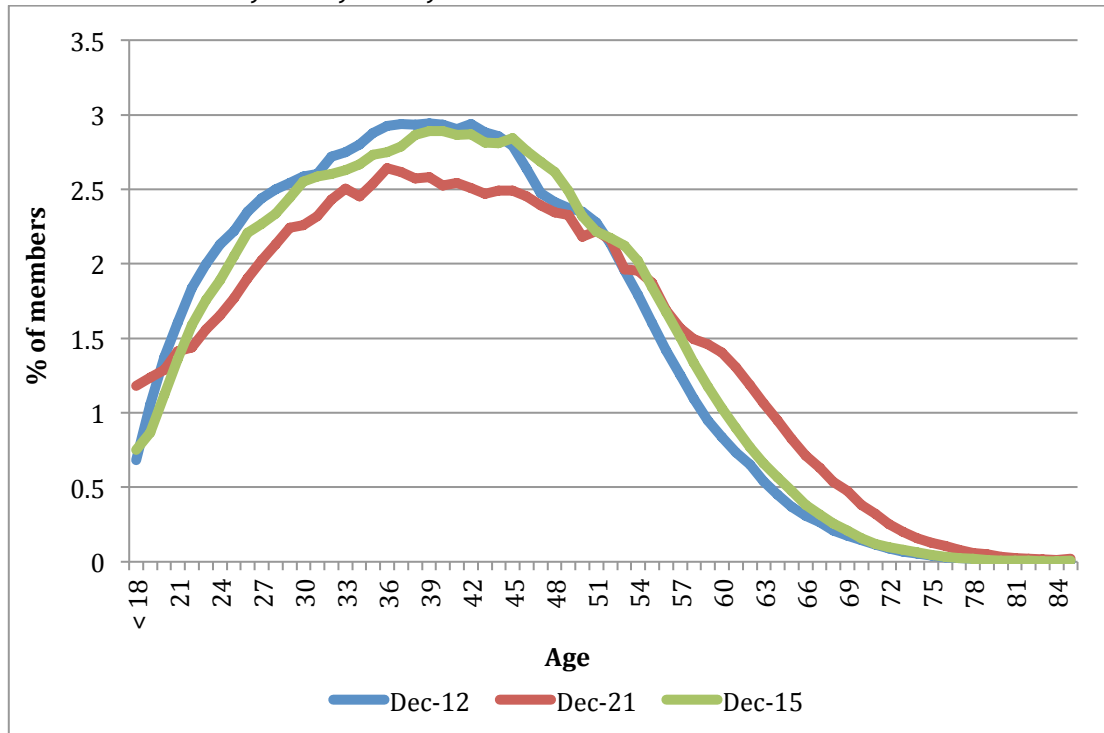
¹⁰⁰² *Proceedings of the NFC of America*, 3rd, 1916, p.108.

Figure 6.30: Market share of fraternal life insurance and percentage of US population in states with legislation establishing minimum rates, 1870-1930.



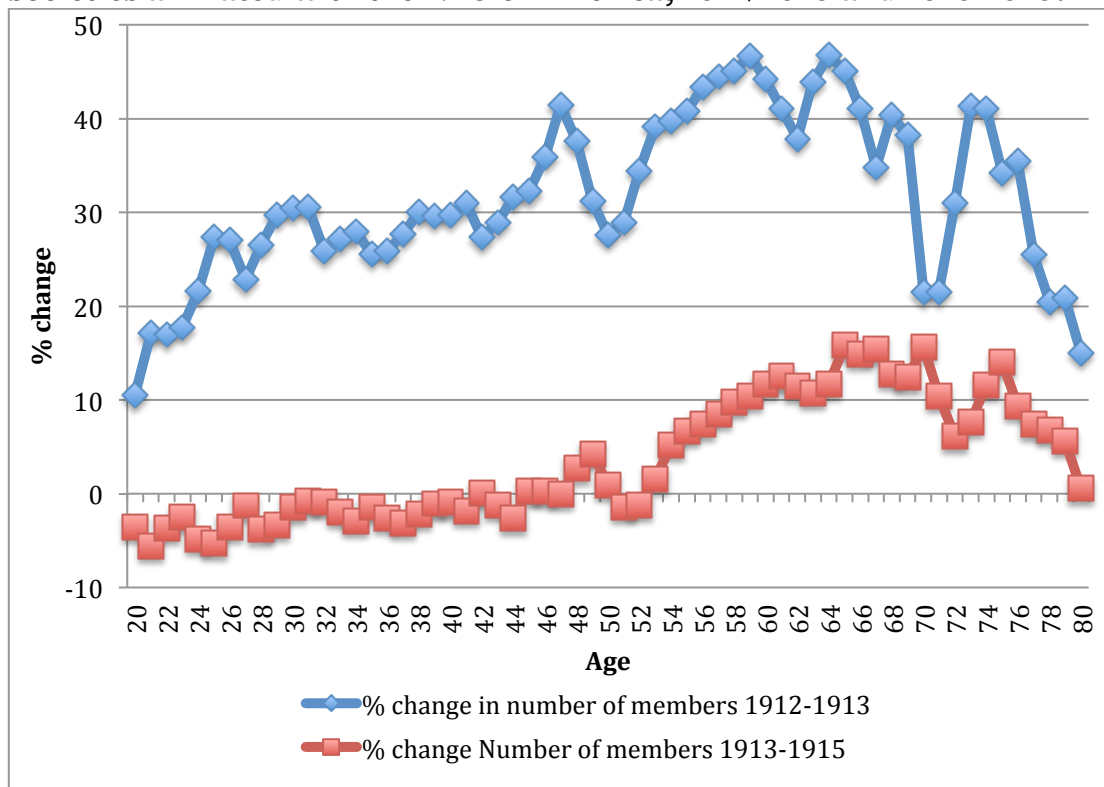
Source; Zanjani, 'The Rise', pp.37-38.

Figure 6.31: Age structure of members in societies affiliated with the NFC of America, 1912, 1915, 1922.



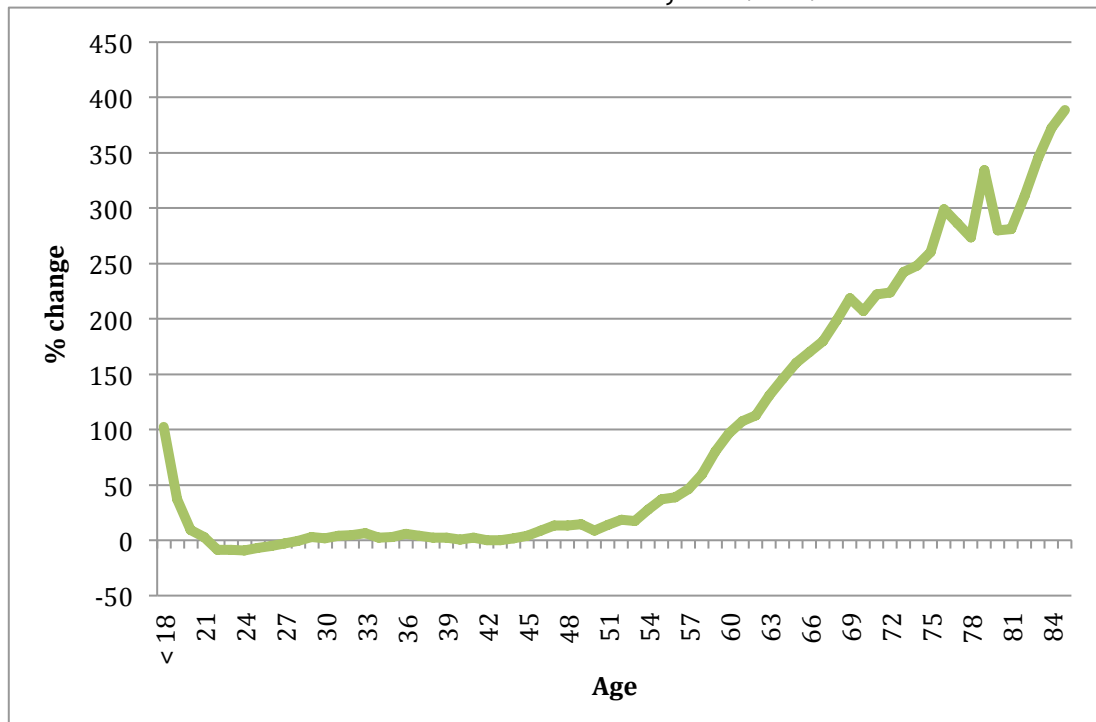
Source: *Proceedings of the NFC of America, 9th, 1922*, 'Statistical tables', pp.180-181; *Proceedings of the NFC, 27th, 1913*, p.550; *Proceedings of the NFC of America, 3rd, 1916*, p.116.

Figure 6.32: Percentage change in number of members at each age in societies affiliated with the NFC of America, 1912-1913 and 1913-1915.



Source: *Proceedings of the NFC, 27th, 1913*, p.550; *Proceedings of the NFC of America, 1st, 1914*, p.467; *Proceedings of the NFC of America, 3rd, 1916*, p.116.

Figure 6.33: Percentage change in number of members at each age in societies affiliated with the NFC of America, 1912-1921.



Source: *Proceedings of the NFC, 27th, 1913*, p.550; *Proceedings of the NFC of America, 9th, 1922*, 'Statistical tables', pp.180-181.

Conclusion

In 1919 the actuary Walter Bayse argued that with the hard task of actuarial reform complete, the fraternal movement was on the cusp of its greatest age.¹⁰⁰³ Bayse was spectacularly wrong. In terms of market share, fraternal life insurers never recovered. Others were more downbeat. In 1917 the President of the NFC of America complained that the movement had been living in a ‘fool’s paradise’, and resigned that it would be a long slog back.¹⁰⁰⁴ In 1918 a group of members of the Royal Arcanum brought a suit to the federal court in Boston to wind up the society and distribute the assets to members. The plan failed but it shows how confidence in the order was shaken.¹⁰⁰⁵

When Harwood first coined the phrase the ‘Golden Age of fraternity’ he was overwhelmed by the ‘tremendous power for good’ that fraternalism represented.¹⁰⁰⁶ Historians have generally reinforced this interpretation. Beito, Gottlieb, Emery and Emery, and Putnam have all argued that the fraternalists were successful insurance organisations and were also conducive to high levels of ‘social capital’.¹⁰⁰⁷ In contrast Kaufman has examined the darker side of the movement, and has emphasised how exclusionary membership policies, particularly with regard to race and gender, encouraged members to define themselves in parochial terms.¹⁰⁰⁸

This chapter sides with Kaufman’s more pessimistic interpretation of fraternalism. The assessment plan, upon which all fraternalists were founded, was a pay-as-you-go approach that could only function if certain conditions held. Fraternal insurers were not ‘foredoomed to fail’, contrary to the views of actuaries at the time and Kaufman. Yet competition for members, adverse selection and the enduring inability of societies to cooperate undermined the assessment method. By the 1890s most societies acknowledged that to survive they would have to move over to a funded plan. This presented the movement with a secondary collective action

¹⁰⁰³ Bayse, *History*, pp.21, 101.

¹⁰⁰⁴ *Proceedings of the NFC of America, 4th, 1917*, p.9.

¹⁰⁰⁵ *Ibid.*, pp.31-32.

¹⁰⁰⁶ Harwood, ‘Secret Societies’, p.7.

¹⁰⁰⁷ Beito, *From Mutual Aid*; Gottlieb, ‘Asymmetric Information’; Emery and Emery, *A Young Man’s*; Putnam, *Bowling Alone*, pp.367-401.

¹⁰⁰⁸ Kaufman, *For the Common Good?*

programme and once again cooperation was elusive. Fraternal associations turned to legislation as a solution, but disputes over what form it should take delayed reform. Legislation was eventually enacted state-by-state from 1912, forcing societies off the assessment plan and subjecting them to periodic valuations. Once fraternal associations were no longer permitted to operate on a pay-as-you-go basis they ceased to be competitive and fell into terminal decline. A comparison with Britain reveals that this decline and fall was not inevitable. In Britain the state actively supported the friendly societies through the Registrar and helped encourage actuarial reform.

Table 6.5: Membership of fraternal associations in the US by state, 1897.

| State | Total Members | % of whole population |
|-----------------|----------------------|------------------------------|
| Nevada | 17,705 | 41.82 |
| New Jersey | 753,832 | 40.01 |
| Wyoming | 35,487 | 38.35 |
| Washington | 154,487 | 29.81 |
| Oregon | 120,603 | 29.16 |
| New Hampshire | 92,354 | 22.43 |
| Maine | 146,370 | 21.07 |
| California | 309,455 | 20.83 |
| Nebraska | 211,401 | 19.82 |
| Delaware | 33,750 | 18.26 |
| Vermont | 58,049 | 16.89 |
| Wisconsin | 346,980 | 16.77 |
| New York | 1,210,633 | 16.65 |
| Michigan | 373,863 | 15.44 |
| Massachusetts | 432,593 | 15.42 |
| Montana | 37,127 | 15.25 |
| Kansas | 223,627 | 15.20 |
| Ohio | 605,645 | 14.56 |
| Connecticut | 132,108 | 14.54 |
| Pennsylvania | 904,853 | 14.35 |
| Iowa | 316,180 | 14.16 |
| Indiana | 350,435 | 13.92 |
| Missouri | 380,204 | 12.23 |
| Illinois | 565,680 | 11.73 |
| Colorado | 49,571 | 9.18 |
| Idaho | 14,055 | 8.68 |
| Columbia | 24,183 | 8.67 |
| Maryland | 99,382 | 8.36 |
| Arizona | 10,018 | 8.14 |
| Minnesota | 140,125 | 8.00 |
| Tennessee | 157,991 | 7.81 |
| Kentucky | 164,235 | 7.64 |
| Dakota | 50,873 | 7.05 |
| West Virginia | 64,392 | 6.71 |
| Utah | 16,232 | 5.86 |
| Texas | 176,777 | 5.79 |
| Arkansas | 73,420 | 5.59 |
| Florida | 25,945 | 4.90 |
| New Mexico | 9,108 | 4.66 |
| Georgia | 89,360 | 4.03 |
| Virginia | 70,540 | 3.80 |
| Louisiana | 47,127 | 3.41 |
| South Carolina | 39,489 | 2.94 |
| Mississippi | 42,226 | 2.72 |
| Alabama | 46,001 | 2.51 |
| North Carolina | 41,944 | 2.21 |
| Oklahoma | 9,204 | 1.16 |
| Rhode Island | 58,525 | 0.92 |
| <i>Total US</i> | <i>8,495,156</i> | <i>10.37</i> |

Source: Stevens, *Cyclopaedia*, p.115; State population tables, Tables Aa2244-6550, in Carter, *et al.*, (eds.) *Historical Statistics of the United States*.

Conclusion

From their humble beginnings in the North of England, friendly societies expanded around the globe. By 1914 millions of individuals had joined one of the major affiliated societies, and in US many millions more joined fraternal associations. The landscapes of the British Isles, North America and Australasia were littered with branches; each one of them represented a coming together of individuals in a cooperative endeavour.

Historians have not fully appreciated the international scope of the friendly societies and fraternal associations, and the important role they played in working-class life around the English-speaking world. Much research remains to be done on the role of these organisations in ‘bottom-up’ informal globalisation. Friendly society and fraternal branches formed vast international social networks. As such these organizations formed an important layer in the social infrastructure that underpinned economic globalization. The international trans-local structure of the largest organizations facilitated the movement of people, information, capital and credit. Migration disrupted social networks, and participation helped ease the transition.¹⁰⁰⁹ The ability to move between branches gave individuals access to a social capital network in their new location. The ‘traveller’ was so embedded in the culture of these organizations that many went to great lengths to provide members with information about conditions abroad. Information also moved through the network of branches. Most organizations operated clearance schemes, allowing members to transfer between branches. This system made cultural capital portable. Participation in a fraternal or a friendly society was a signal of social respectability. Status is difficult to dis-embed from a particular social network, but by participating in a trans-local organization an individual could transport the status accrued in one location to another. Finally, trans-local organizations harmonized the potentially incompatible goals of the prudential saver and the prospective migrant. As one individual told a Royal Commission in 1892, ‘the working man, who is not satisfied with his lot can...

¹⁰⁰⁹ For a similar approach see Renfree ‘Migrants and Cultural Transference’, pp.64, 149.

establish himself in a new home without losing any of the advantages for which he has subscribed'.¹⁰¹⁰

The branch structure was critical to the success of these organisations. Branches were highly replicable and within them members forged durable ties. Social cohesion helped friendly societies overcome moral hazard. Claims did not increase in response to a rise in the value of benefits. Yet morbidity rates did respond to the wealth of a society – suggesting that poorer societies were unable to fund all claims and members had to work through bouts of ill health.

In recent years a number of revisionists have argued that friendly societies were highly effective insurance organisations at a very low risk of collapse. These scholars have been too optimistic. The original pay-as-you-go friendly society model could not withstand falling admission rates and rising morbidity levels. From the mid-nineteenth century many within the movement came to realise that change was necessary. Remarkably, friendly societies proved to be highly adaptable. Organisations like the Foresters and the Oddfellows underwent a long and difficult process of reform; they moved over to a 'funded' plan and started charging contributions graduated by age on entry. 'Actuarial reform' improved the financial position of individual branches and saved a great many from collapse.

Reform was all the more essential given that the friendly societies had an aging population problem by the end of the nineteenth century. A number of authors have argued that societies were able to overcome adverse selection because existing members carefully screened new recruits. This may have been true, but there were countervailing forces at work. 'Social homophily' is the tendency of individuals to be connected to people similar to them. If members befriended individuals of a similar age in their external social networks, and then recruited from this pool, then the selection process was flawed. As a branch aged so too would the new members. There is evidence that a degree of youth biased age homophily did influence recruitment and this exaggerated the aging process.

¹⁰¹⁰ Gosden, *The Friendly Societies*, p.223.

Friendly societies underwent dramatic change over the nineteenth century, moving from small ‘box clubs’ founded on rough and ready principles to complex insurance organisations. This transition created an intractable dilemma. To preserve their financial integrity friendly societies grew in size and adopted reforms that made them more bureaucratic and business-like. Yet this made the lodge room a less sociable space, eroding the ties of mutual obligation and good will that underpinned self-governance and effective monitoring. In the US Meyer called this the ‘battle between “fraternalism and commercialism”’.¹⁰¹¹

Over the nineteenth century the social and cultural meaning of the friendly societies mutated. A number of historians have argued that this contributed to the decline of the movement. Some have argued that the National Health Insurance (NHI) scheme of 1911 was particularly damaging. Yet the writing was on the wall long before this. Over the second half of the nineteenth century lodges of the Oddfellows ballooned in size, met less frequently and attendance was persistently low. In Australasia the friendly societies remained more sociable. There were a number of causes, but pivotal was the relative youth of the movement when compared to Britain and the higher rates of initiation into and migration between branches. Branches were important hubs of social capital in ‘frontier’ like regions, amplifying the importance of cultural practices that strengthened the bonds between members.

It is conventional wisdom that the welfare state ‘elbowed out’ mutualism. A number of economists and historians have suggested that the NHI scheme harmed those friendly societies that took on ‘approved society’ status. Few have subjected this claim to empirical scrutiny. The reality was far more complex. If anything the NHI scheme gave the affiliated friendly societies a temporary boost late in their life cycle. Commenting on the British scheme the New Zealand Registrar noted that ‘the Act has effected a welcome increase in the societies’ membership, and considerably strengthened the voluntary side of the business’.¹⁰¹² There is little evidence to suggest that the scheme led to an increase in sickness claims. This suggests that the friendly societies and the state were not locked in a zero-sum battle.

¹⁰¹¹ Meyer, ‘Fraternal Beneficiary’, p.199.

¹⁰¹² *Friendly Societies: Report of the Registrar for New Zealand for the Year 1912*, in AJHR, Session I, section H-01, (1913), p.2.

The direct impact of the legislation is particularly evident when the British experience is compared with the history of the friendly societies in Australasia between 1900 and 1930. In Australia and New Zealand, in the absence of NHI, the friendly societies continued to grow but at a much slower and steadier pace. In Britain the positive effects of the NHI scheme gradually wore off, and over the 1920s the Australasian friendly societies pulled ahead in terms of membership growth. There were a number of causes; lodges were more sociable and societies faced far less competition from industrial assurance companies and collecting friendly societies.

In the US the rise of fraternal associations baffled contemporaries. Yet behind the membership figures lurked some deeply embedded problems. The pay-as-you-go assessment plan was fragile. Indeed unsound financial practices necessitated the constant addition of new members – or ‘young blood’ as it was known. Societies had to maintain low death rates to survive, but by the 1890s it was apparent that many had failed to do so. Destructive competition for members exacerbated the problem. The societies turned to legislation as a way to break the deadlock and force all societies onto a funded model. Yet ongoing competition between societies over the form legislation should take, delayed reform. The fraternalists took much longer than the British friendly societies to adopt actuarial pricing and when legislation did emerge it crippled the movement. Once fraternalists were prevented from running on an ‘assessment plan’ they were no longer competitive. In Britain the pattern of evolution was very different. The state took a more active role in supporting and monitoring the friendly societies. Moreover by forcing registered societies to publish valuation results the Registrar’s office embedded financial viability in the competition for members. The overall pattern in Britain was one of a gradual rise and fall, punctuated by a late ‘Indian summer’ thanks to the NHI scheme. In the US the ‘Golden Age of Fraternalism’ was a spectacular boom and bust.

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